

# EXHIBIT 1



# SCHOLASTIC CORP (SCHL)

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NEW YORK, NY 10012  
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<http://www.scholastic.com/>

## EX-99.1

8-K Filed on 03/17/2004 - Period: 03/16/2004  
File Number 000-19860



LIVEDGAR Information provided by Global Securities Information Inc.  
Spring 2004

[www.gsionline.com](http://www.gsionline.com)

EXHIBIT 99.1

## CONTACTS:

Media: Judy Corman (212) 343-6833  
Investors: Ray Marchuk (212) 343-6741

## SCHOLASTIC REPORTS THIRD QUARTER FINANCIAL RESULTS

NEW YORK, MARCH 16, 2004 -- Scholastic Corporation (NASDAQ: SCHL) today announced results for the third fiscal quarter ended February 29, 2004.

Revenue increased 9% to \$472.0 million from \$433.7 million in the year-ago period. The Company generated an operating loss of \$2.3 million for the quarter, compared to a profit of \$3.9 million in the year-ago period. Net loss for the quarter was \$6.0 million, or \$0.15 per diluted share, compared to a net loss of \$0.5 million, or \$0.01 per diluted share, in the year-ago period. The year-ago period included a gain of \$2.9 million pre-tax, or \$0.05 per diluted share after-tax, on the sale of an equity investment. The third quarter is Scholastic's second smallest revenue period.

Richard Robinson, Chairman, President and CEO, commented, "Greater than anticipated challenges in our Direct-to-Home Continuity and Trade businesses caused lower results in the third quarter, particularly in February, and have caused us to reevaluate our forecast for this fiscal year. In its first full quarter of effect, Federal 'Do Not Call' legislation resulted in lower than expected Direct-to-Home response rates and margins. In Trade, lower backlist orders and increased returns were driven by more aggressive inventory management by accounts in a continuing tough retail environment. These factors more than offset strong revenue and profit growth in School Book Clubs, Educational Publishing and International, and progress in School Book Fairs.

"We now expect to generate EPS for Fiscal 2004 below \$1.95, but above last year's results. This excludes special and non-recurring items in Fiscal 2003 and Fiscal 2004. We also expect free cash flow to be approximately \$50 million in Fiscal 2004."

Mr. Robinson continued, "Based on these results and the future needs of the Company, we have taken the following management actions:

"First, Barbara Marcus, President of Children's Book Publishing & Distribution, will devote her extraordinary skills to our Trade and Fair operations. Her full-time attention to these businesses is expected to improve their results.

"Second, Judy Newman, Senior Vice President, who executed this year's turn-around in Clubs, will also significantly expand her day-to-day role in Direct-to-Home, reporting to me. She will be taking a fresh look at the Direct-to-Home business, focusing on developing new models for acquiring customers and restoring profitable growth.

"Third, financial staff in the business units, who formerly reported to division presidents, will now report directly to our new Chief Financial Officer, Mary Winston. This step will help improve our financial forecasting processes.

"Fourth, we have accepted the resignations of the president in charge of our Direct-to-Home business and the senior vice president in charge of our Trade business.

## EXHIBIT 99.1

These are important steps in our plan to improve revenue, profitability and margin growth."

## THIRD FISCAL QUARTER SEGMENT RESULTS

Children's Book Publishing & Distribution revenue increased 1% over the year-ago quarter to \$271.5 million, as growth in Clubs and Fairs was largely offset by declines in Trade and Continuities. Operating profit was \$11.4 million, compared to \$23.0 million in the year-ago period. Club revenue grew 18% on more orders, helped in part by the July 2003 acquisition of selected assets of Troll Book Clubs. Fair revenue advanced 4% on higher revenue per fair. Trade revenue declined \$11 million, due primarily to lower backlist sales and higher than expected February returns. Continuity revenue declined 8%, reflecting the lower response to Direct-to-Home telemarketing, which increased the amortization of related promotional costs.

Educational Publishing revenue increased 7% to \$69.4 million, generating profits of \$3.3 million, versus a year-ago loss of \$2.9 million. Results benefited from a more than 50% increase in sales of the READ 180(R) intervention program and a more than 15% increase in sales of classroom libraries and Teaching Resources.

International revenue increased 25% to \$87.6 million, with operating profit increasing to \$1.3 million, as compared to \$0.8 million in the year-ago quarter. Revenue growth in exports and in the Company's Canadian operations contributed to revenue and profit growth while foreign exchange changes added \$11 million to revenue.

Media, Licensing & Advertising revenue increased 49% to \$43.5 million, due to the addition of the Back to Basics Toys(R) catalog business as well as the Warner Bros. release in February of CLIFFORD'S REALLY BIG MOVIE(TM) to theaters in five metropolitan areas. Operating loss was reduced to \$1.1 million from \$1.6 million in the prior year period.

## NINE MONTH FISCAL 2004 RESULTS

For the nine months ended February 29, 2004, revenue increased 18% to \$1,646.4 million, compared to \$1,400.9 million in last year's period. Net income increased 20% to \$35.9 million, or \$0.90 per diluted share, compared to \$29.9 million, or \$0.74 per diluted share, in the year-ago period. Results for the nine months ended February 29, 2004 included special severance charges totalling \$3.2 million pre-tax, or \$0.05 per diluted share after-tax. Results for the nine months ended February 28, 2003 included a special charge of \$1.9 million pre-tax, or \$0.03 per diluted share after-tax, to settle a securities litigation lawsuit from 1997 and a gain of \$2.9 million pre-tax, or \$0.05 per share after-tax, from the sale of an investment.

## CONFERENCE CALL

Scholastic will hold a conference call tomorrow (March 17, 2004) at 8:00 AM Eastern. To listen and ask questions, dial 973-935-8510 or 888-338-6461 (meeting leader is "Richard Robinson"). To view accompanying slides, go to the Investor Relations section of Scholastic.com. Following the call, the slides will be available on the Investor Relations section of Scholastic.com and an audio replay will be available at 877-519-4471, PIN number 4560804.

EXHIBIT 99.1

#### UPCOMING INVESTOR PRESENTATIONS

Scholastic is currently scheduled to present at the Smith Barney Small and Mid-Cap Conference in Las Vegas on May 6, 2004. Further details will be posted in the Investor Relations section of WWW.SCHOLASTIC.COM when available.

#### ABOUT SCHOLASTIC

Scholastic is the world's largest publisher and distributor of children's books. Scholastic creates quality educational and entertaining materials and products for use in school and at home, including children's books, magazines, technology-based products, teacher materials, television programming, film, videos and toys. The Company distributes its products and services through a variety of channels, including proprietary school-based book clubs, school-based book fairs, and school-based and direct-to-home continuity programs; retail stores, schools, libraries and television networks; and the Company's Internet site, [www.scholastic.com](http://www.scholastic.com).

#### FORWARD-LOOKING STATEMENTS

This news release contains certain forward-looking statements. Such forward-looking statements are subject to various risks and uncertainties, including the conditions of the children's book and educational materials markets and acceptance of the Company's products within those markets and other risks and factors identified from time to time in the Company's filings with the Securities and Exchange Commission. Actual results could differ materially from those currently anticipated.

# EXHIBIT 2



## SCHOLASTIC CORP (SCHL)

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### EX-99.1

8-K Filed on 07/15/2004 - Period: 07/12/2004  
File Number 000-19860



Exhibit 99.1

## CONTACTS:

Investors: Ray Marchuk 212-343-6857  
Media: Judy Corman 212-343-6833

SCHOLASTIC ANNOUNCES FOURTH QUARTER CHARGES RELATED TO ITS CONTINUITY BUSINESS;  
EXPECTS FISCAL 2004 EPS IN LINE WITH PREVIOUS GUIDANCE

NEW YORK, NY, July 12, 2004 - Scholastic Corporation (NASDAQ: SCHL) today announced that, in connection with its previously announced review of its Continuity business, it will record charges of approximately \$25 million in the fourth quarter of its fiscal year ended May 31, 2004 related to that business. The Company also announced that it will record a fourth quarter gain of \$8 million resulting from the termination of a sublease in New York City.

The net effect of these items of \$17 million pre-tax, or \$0.28 per diluted share net of tax, will be recorded in the quarter and year ended May 31, 2004. Including these items and special severance charges principally recorded in earlier quarters of fiscal 2004 totaling \$3.3 million pre-tax or \$0.05 per diluted share net of tax, the Company expects to report Fiscal 2004 EPS of \$1.40 to \$1.50 per diluted share. These results are in line with Scholastic's prior guidance. The Company also expects to exceed its previously stated \$50 million cash flow target for Fiscal 2004.

The Continuity-related charges primarily represent write-downs of inventory from discontinued programs and prepaid promotion costs, as well as small increases in bad debt expense and provisions for returns, and related severance. These charges will be recorded primarily as components of Cost of goods sold; Selling, general and administrative expenses; and Bad debt expense.

Richard Robinson, Chairman, President and CEO, commented, "As we said we would in March, we thoroughly reviewed our Continuity business in response to the challenges we faced during Fiscal 2004, including the effects of federal Do Not Call legislation." Robinson added, "We are adjusting our business model to strengthen our relationship with our most productive customers through product and service improvements. While we expect that reducing promotions to our less productive customers will temporarily reduce revenues, we believe these actions will improve customer retention, profitability and cash flow in this strategically important business. Our direct-to-home Continuity business has generated significant profits and cash flow since its acquisition in June 2000 and is a key part of our plan to reach parents at home and help their children read and learn."

As a result of actions taken to strengthen the management team of the Continuity business, the Company will also record a severance charge of \$2.3 million, or \$0.04 per diluted share, in the first quarter of Fiscal 2005.

Scholastic will announce Fiscal 2004 results and Fiscal 2005 plans after the close of market on July 21, 2004 and will hold its year-end investor meeting the following morning, July 22nd at 8:00 am, EDT, at corporate headquarters in New York City.

## ABOUT SCHOLASTIC

Scholastic Corporation, the world's largest publisher and distributor of children's books, creates quality educational and entertaining materials and

products for use in school and at home, including children's books, textbooks, magazines, technology-based products, teacher materials, television programming, videos and toys. The Company distributes its products and services through a variety of channels, including proprietary school-based book clubs, school-based book fairs, school-based and direct-to-home continuity programs; retail stores, schools, libraries, and television networks; and the Company's Internet Site, <http://www.scholastic.com>.

# EXHIBIT 3



# SCHOLASTIC CORP (SCHL)

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<http://www.scholastic.com/>

## 10-K

Filed on 08/02/2004 - Period: 05/31/2004  
File Number 000-19860





United States  
Securities and Exchange Commission

Washington, D.C. 20549

Form 10-K

Annual Report pursuant to section 13 or 15(d) of  
the Securities Exchange Act of 1934

For the fiscal year ended May 31, 2004 | Commission File No. 000-19860

Scholastic Corporation

(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)  
557 Broadway, New York, New York  
(Address of principal executive offices)

13-3385513  
(IRS Employer Identification No.)

10012  
(Zip Code)

Registrant's telephone number, including area code: (212) 343-6100

Securities Registered Pursuant to Section 12(b) of the Act:

NONE

Securities Registered Pursuant to Section 12(g) of the Act:

Title of class  
Common Stock, \$0.01 par value

Name of Each Exchange on Which Registered  
The NASDAQ Stock Market

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).  
Yes ☒ No ☐

The aggregate market value of the Common Stock, par value \$0.01, held by non-affiliates as of July 26, 2004, was approximately \$854,089,000. As of such date, non-affiliates held no shares of the Class A Stock, \$0.01 par value. There is no active market for the Class A Stock.

The number of shares outstanding of each class of the Registrant's voting stock as of July 26, 2004 was as follows: 37,947,917 shares of Common Stock and 1,656,200 shares of Class A Stock.

Documents Incorporated By Reference

Part III incorporates certain information by reference from the Registrant's definitive proxy statement for the Annual Meeting of Stockholders to be held September 21, 2004.

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## Item 7 | Management's Discussion and Analysis of Financial Condition and Results of Operations

## General

Scholastic is a global children's publishing and media company. The Company distributes its products and services through a variety of channels, including school-based book clubs, school-based book fairs, school-based and direct-to-home continuity programs, retail stores, schools, libraries and television networks. The Company categorizes its businesses into four operating segments: *Children's Book Publishing and Distribution*; *Educational Publishing*; *Media, Licensing and Advertising* (which collectively represent the Company's domestic operations); and *International*. This classification reflects the nature of products and services consistent with the method by which the Company's chief operating decision-maker assesses operating performance and allocates resources.

Certain prior year amounts have been reclassified to conform to the current year presentation. The following discussion and analysis of the Company's financial position should be read in conjunction with the Company's Consolidated Financial Statements and the related Notes included in Item 8, "Consolidated Financial Statements and Supplementary Data."

## Overview and Outlook

Fiscal 2004 revenues increased 14.1% to over \$2 billion as a result of revenue growth in each of the Company's four operating segments. This revenue growth was principally attributed to growth in the *Children's Book Publishing and Distribution* segment led by the record trade sales of *Harry Potter and the Order of the Phoenix* in the first quarter of the fiscal year, combined with growth in school-based book clubs and school-based book fairs. Revenue growth also benefited from increases in the *Educational Publishing* segment, led by strong sales of classroom libraries and *Read 180*, and higher *International* revenues, including the effect of currency changes.

Operating income declined by 3.1%, to \$115.0 million, principally because strong operating profit improvements in *Educational Publishing*, *International* and the Company's school-based book clubs and trade businesses included in the *Children's Book Publishing and Distribution* segment were more than offset by profit deterioration in its continuity business. In response to weakness in its continuity business, including the impact of the National Do Not Call Registry legislation, the Company strategically reviewed the business, which resulted in charges of approximately \$25 million.

For fiscal 2005, the Company's goals include higher profits on lower revenues. These goals are based on: (1) revenue and profit growth in the school-based book clubs, school-based book fairs and non-Harry Potter front list trade components of the *Children's Book Publishing and Distribution* segment, partially offsetting the revenue and profit impact from lower *Harry Potter* revenue in a year with no scheduled release of a new title in the series; (2) lower revenue and higher profit from the reorganized continuity business, as the Company strengthens its relationships with its most productive customers through product and service improvements; (3) growth in revenue and operating profit in its *Educational Publishing* segment, built on ongoing strength in reading improvement materials, including technology based products and classroom libraries; (4) continued growth in the *International* segment; and (5) achieving operating improvements and efficiencies, with a continued focus on generating free cash flow.

## Critical Accounting Policies and Estimates

## General:

The Company's discussion and analysis of its financial condition and results of operations is based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements involves the use of estimates and assumptions by management,



# EXHIBIT 4



## SCHOLASTIC CORP (SCHL)

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### EX-99.1

8-K Filed on 09/21/2004 - Period: 09/21/2004  
File Number 000-19860



Exhibit 99.1

CONTACTS:

Media: Judy Corman (212) 343-6833  
Investors: Ray Marchuk (212) 343-6741

SCHOLASTIC REPORTS FIRST QUARTER RESULTS

STRONG PERFORMANCE IN EDUCATIONAL PUBLISHING  
DRIVES SMALLER THAN EXPECTED SEASONAL LOSS

NEW YORK, SEPTEMBER 21, 2004 -- Scholastic Corporation (NASDAQ: SCHL) today announced results for the first fiscal quarter ended August 31, 2004. Scholastic's first quarter is its smallest revenue period, as most schools are not in session, resulting in a seasonal loss. Last year's first quarter loss was unusually low due to the benefit of approximately \$170 million in revenues related to the release of the record-setting best seller, HARRY POTTER AND THE ORDER OF THE PHOENIX.

Net loss for the quarter ended August 31, 2004 was \$50.3 million, or \$1.27 per share, which included \$3.6 million pre-tax, or \$0.06 per diluted share, in severance costs relating to the previously announced fiscal 2004 reorganization of the Continuities business. This compares to the year-ago net loss of \$24.8 million, or \$0.63 per share, which included Special severance charges of \$2.0 million pre-tax, or \$0.03 per diluted share. Revenues were \$323.7 million in the quarter, as compared to \$475.4 million in the year-ago quarter.

"We are off to a good start to achieve Scholastic's fiscal 2005 financial goals," said Richard Robinson, Chairman, President and Chief Executive Officer. "Strong performance in Educational Publishing, driven by technology sales, and improved results in International helped us achieve a smaller than expected loss for the first quarter. Our Continuities business met expectations as we successfully executed on our plan. Non-HARRY POTTER trade revenue resumed growth, reflecting improved sales of front-list titles. Cash use was approximately flat with the year-ago quarter, and debt at August 31st was down \$82 million versus last year."

Scholastic's fiscal 2005 goals include revenue of \$2.1 to \$2.2 billion, earnings per diluted share of \$1.50 to \$1.70, excluding severance charges, and free cash flow of \$40 to \$50 million.

FIRST QUARTER SEGMENT ANALYSIS

CHILDREN'S BOOK PUBLISHING & DISTRIBUTION - Segment revenue was \$121.8 million, as compared to \$287.9 million in the year-ago quarter, and operating loss was \$65.0 million, as compared to \$16.6 million. Trade revenue declined in comparison to the year-ago period, due to last year's release of HARRY POTTER AND THE ORDER OF THE PHOENIX, partially offset by an 8% increase in other trade revenues in the fiscal 2005 first quarter. As planned, Continuities results improved on lower revenue as a result of reduced bad debt and fewer returns.

EDUCATIONAL PUBLISHING - Segment revenue was \$118.2 million, as compared to \$105.8 million in the year-ago quarter, and operating income was \$22.2 million, as compared to \$15.5 million. A more than 50% increase in sales of the READ 180(R) technology program fueled a 25% increase in Curriculum revenue compared to the year ago quarter. Library Publishing results improved, with revenue up 18%, while sales of collections of children's books to schools declined modestly.

INTERNATIONAL - Segment revenue was \$71.8 million, as compared to \$65.3 million in the year-ago quarter, and the operating loss was \$3.0 million, as compared to \$3.9 million. Segment results reflected improved revenues and profits in the Company's Australian operations. Revenue also benefited from \$4 million in foreign currency translation.

MEDIA, LICENSING & ADVERTISING - Segment revenue was \$11.9 million, as compared to \$16.4 million in the year-ago quarter, and operating loss was \$6.7 million, as compared to \$4.9 million. The revenue decline primarily reflects different production delivery schedules of animated television series in fiscal 2004 and fiscal 2005. MAYA & MIGUEL(TM), Scholastic's new media, licensing and publishing franchise, with a focus on the adventures of a Latino family, will debut on PBS on October 11th.

#### CONFERENCE CALL

Scholastic will hold a conference call tomorrow (September 22, 2004) at 8:00 a.m. Eastern time. To listen and ask questions, dial 888-338-6461 or 973-935-8510 (meeting leader "Richard Robinson"). To view accompanying slides, go to the Investor Relations section of Scholastic.com at [WWW.SCHOLASTIC.COM/GO/HOMEPAGE/COMPANY/INVESTORS.HTM](http://WWW.SCHOLASTIC.COM/GO/HOMEPAGE/COMPANY/INVESTORS.HTM). Following the presentation, the slides will be available on the Investor Relations section of Scholastic.com and an audio replay will be available starting 10 a.m. at 877-519-4471, PIN number 5162970.

#### ABOUT SCHOLASTIC

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#### FORWARD-LOOKING STATEMENTS

This news release contains certain forward-looking statements. Such forward-looking statements are subject to various risks and uncertainties, including the conditions of the children's book and educational materials markets and acceptance of the Company's products within those markets and other risks and factors identified from time to time in the Company's filings with the Securities and Exchange Commission. Actual results could differ materially from those currently anticipated.

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SCHOLASTIC CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS -- UNAUDITED  
FOR THE THREE MONTHS ENDED AUGUST 31, 2004 AND 2003

(Dollars in millions except per share data)

	THREE MONTHS ENDED			VARIANCE
	8/31/04	08/31/03		
Revenues	\$323.7	\$475.4	(\$151.7)	-32%
Operating costs and expenses:				
Cost of goods sold	176.4	281.4	(105.0)	-37%
Selling, general and administrative expenses	185.1	188.1	(3.0)	-2%
Selling, general and administrative expenses --				
Continuity charges (1)	3.6	---	3.6	*
Bad debt expense	16.2	20.7	(4.5)	-22%
Depreciation and amortization	13.4	13.0	0.4	3%
Special severance charges (2)	---	2.0	(2.0)	*
Total operating costs and expenses	394.7	505.2	(110.5)	-22%
Operating income	(71.0)	(29.8)	(41.2)	-138%
Interest expense, net	7.0	8.9	(1.9)	-21%
Loss before income taxes	(78.0)	(38.7)	(39.3)	102%
Benefit from income taxes	27.7	13.9	13.8	99%
Net loss	(\$50.3)	(\$24.8)	(\$25.5)	-103%
Weighted average shares outstanding (in millions)	39.6	39.3		
Basic and diluted loss per share	(\$1.27)	(\$0.63)	(\$0.64)	-102%

(1) Results for the three months ended August 31, 2004 include pre-tax charges of \$3.6, or \$0.06 per share after-tax, for severance related to staff reductions implemented in that quarter related to the previously announced reorganization of the Continuities business.

(2) Results for the three months ended August 31, 2003 include a pre-tax Special severance charge of \$2.0, or \$0.03 per share after-tax, for staff reductions implemented in that quarter related to a workforce reduction announced in May 2003.

\* Percent change not meaningful.

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FORWARD LOOKING STATEMENTS

This news release contains certain forward-looking statements. Such forward-looking statements are subject to various risks and uncertainties, including the conditions of the children's book and instructional material markets and acceptance of the Company's product within those markets and other risks and factors identified from time to time in the Company's filings with the Securities and Exchange Commission. Actual results could differ materially from those currently anticipated.

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SCHOLASTIC CORPORATION

RESULTS OF OPERATIONS - SEGMENTS - UNAUDITED  
FOR THE THREE MONTHS ENDED AUGUST 31, 2004 AND 2003 (1) (2)  
(Dollars in millions)

	THREE MONTHS ENDED			VARIANCE
	08/31/04	08/31/03		
Children's Book Publishing and Distribution				
Revenue	\$121.8	\$287.9	(\$166.1)	-58%
Operating profit/(loss)	(65.0)	(16.6)	(48.4)	-
Operating margin	-53.4%	-5.8%		
Educational Publishing				
Revenue	118.2	105.8	12.4	12%
Operating profit/(loss)	22.2	15.5	6.7	43%
Operating margin	18.8%	14.6%		
International				
Revenue	71.8	65.3	6.5	10%
Operating profit/(loss)	(3.0)	(3.9)	0.9	-23%
Operating margin	-4.2%	-6.0%		
Media, Licensing and Advertising				
Revenue	11.9	16.4	(4.5)	-27%
Operating profit/(loss)	(6.7)	(4.9)	(1.8)	-37%
Operating margin	-55.5%	-29.9%		
Overhead Expense	18.5	19.9	(1.4)	-7%
Operating Income	(\$71.0)	(\$29.8)	(\$41.2)	-138%

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- (1) Results for the three months ended August 31, 2004 include pre-tax charges of \$3.6 in the Children's Book Publishing and Distribution segment for severance related to staff reductions implemented in that quarter related to the previously announced reorganization of the Continuities business.
- (2) Results for the three months ended August 31, 2003 include a pre-tax Special severance charge of \$2.0 for staff reductions implemented in that quarter related to a workforce reduction announced in May 2003, allocated as follows: \$0.9 to Children's Book Publishing and Distribution, \$0.5 to Educational Publishing, \$0.1 to International, and \$0.5 to Overhead Expense.
- =====

SCHOLASTIC CORPORATION  
SUPPLEMENTAL INFORMATION - UNAUDITED

(Dollars in millions)

SELECTED BALANCE SHEET ITEMS

	08/31/04	08/31/03	CHANGE	
Cash and cash equivalents	\$13	\$9	\$4	44%
Accounts receivable, net	\$242	\$365	-\$123	-34%
Inventories	\$534	\$492	\$42	9%
Total debt (lines of credit, short-term debt and long-term debt)	\$619	\$701	-\$82	-12%
Total stockholders' equity	\$807	\$747	\$60	8%

SELECTED CASH FLOW ITEMS

	FOR THE QUARTER ENDED			
	08/31/04	08/31/03	CHANGE	
Net cash used by operating activities	(\$79)	(\$80)	\$1	1%
Additions to property, plant and equipment	(10)	(8)	(2)	-25%
Prepublication and production expenditures	(14)	(17)	3	18%
Royalty advances	(7)	(6)	(1)	-17%
Free cash flow (cash use) (1)	(\$110)	(\$111)	\$1	1%

- (1) Free cash flow is defined by the Company as net cash provided by operating activities, less spending on: property, plant and equipment; pre-publication and production costs; and royalty advances. The Company believes this measure, which is a non-GAAP financial measure, is useful to investors as an indicator of cash flow available for debt repayment and other investing activities, such as acquisitions. The Company utilizes free cash flow as a further indicator of operating performance and for planning investing activities.

# EXHIBIT 5



## SCHOLASTIC CORP (SCHL)

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### EX-99.1

#### PRESS RELEASE

8-K Filed on 03/17/2005 - Period: 03/17/2005  
File Number 000-19860



Exhibit 99.1

Scholastic Announces Fiscal 2005 Third Quarter Results;  
Improved Operating Profits, on Modest Revenue Growth and Higher Margins

NEW YORK--(BUSINESS WIRE)--March 17, 2005--Scholastic Corporation (NASDAQ:SCHL) today announced its fiscal 2005 third quarter results.

For the quarter ended February 28, 2005, Scholastic generated an operating profit of \$5.8 million, compared to a loss of \$2.3 million in the year-ago period. Revenues were \$480.8 million, up 2% from \$472.0 million a year ago. Net loss in the third quarter improved to \$0.7 million or \$0.02 per diluted share, compared to a net loss of \$6.0 million or \$0.15 per diluted share in the prior year period. The third quarter is typically Scholastic's second smallest revenue period.

"With continued focus on margins, we achieved higher profitability in all operating segments last quarter," commented Richard Robinson, Chairman, CEO and President of Scholastic. "Improved results in Trade drove growth in the Children's Book Publishing and Distribution segment, while profits also rose in International and in Educational Publishing."

Mr. Robinson added, "With Internet orders up nearly 20% this fiscal year and now representing more than 10% of Scholastic's revenues, I'm also very excited by the recent appointment of Seth Radwell as president of e-Scholastic. Seth's experience building new print and electronic businesses, most recently at Bookspan and Doubleday Interactive, will help us accelerate this momentum."

For fiscal 2005, the Company continues to expect earnings of between \$1.50 and \$1.70 per diluted share, excluding severance charges, on revenues of approximately \$2.1 billion, and is on plan to generate free cash flow of \$40 to \$50 million.

#### Third Quarter Results

Children's Book Publishing and Distribution. Operating profits in the segment rose 56% from the prior year period to \$16.5 million in the third quarter of fiscal 2005, driven by lower returns and higher gross sales in Trade Publishing. Segment revenues grew slightly to \$272.3 million, reflecting the improvement in Trade as well as in School Book Fairs, where better product availability and merchandising contributed to higher revenues per fair. This was partly offset by lower Continuity revenues, which declined as a result of the Company's strategy of focusing on more productive customers, and by a 1% decline in School Book Club revenues.

Educational Publishing. For the quarter, segment operating profits rose 25% to \$4.0 million and revenues increased 14% to \$79.3 million, relative to the prior year period. Higher revenues and profits reflected strong sales of educational technology, including Read 180(R), and higher circulation of classroom magazines.

International. Operating profits in the segment were \$3.4 million for the quarter, a \$2.6 million increase from the prior year period, primarily from improved results in the Company's Australian operations. Revenues rose \$4.4 million to \$92.0 million, of which \$3.8 million was due to foreign exchange benefits.

Media, Licensing and Advertising. Revenues in the segment were \$37.2 million, a \$6.3 million decline from the prior year, principally due to lower production revenues (and corresponding expenses) in Scholastic Entertainment, which a year ago released CLIFFORD'S REALLY BIG MOVIE(TM). Operating profits in the segment rose modestly to \$1.3 million, primarily from improved results in software sales. Building

on its fall 2004 launch, the Company's new media property Maya & Miguel(TM) now ranks number one among new shows on the PBS KIDS GO! programming block and number two among all PBS programming for children ages six to 11.

Other Financial Results. Operating profits in the quarter improved to 1.2% of revenues versus an operating loss of 0.5% in the year ago period, and free cash flow in the quarter was \$37.3 million compared to \$19.9 million. Interest expense declined slightly to \$6.9 million, with net debt at the end of the quarter of \$488.2 million, or \$65.4 million lower than a year ago.

#### Results for Nine Months Ending February 28, 2005

Net income for the first nine months of fiscal 2005 was \$21.7 million, or \$0.54 per diluted share, compared to \$35.9 million, or \$0.90 per diluted share, in the prior year period. Revenues this fiscal year were \$1,487.8 million versus \$1,646.4 million a year ago. Free cash use in the period was \$4.8 million, compared to free cash flow of \$22.0 million in the prior year. These year-over-year differences primarily reflect revenue declines in Harry Potter and in Continuities, partially offset by growth in Educational Publishing and non-Harry Potter Trade Publishing.

#### Upcoming Conference Call

Scholastic will hold a conference call tomorrow (March 18, 2005) at 8:00 a.m. Eastern. To listen and/or ask questions, dial 888-338-6461 or 973-935-8510 (meeting leader is "Richard Robinson"). To view accompanying slides, go to the Investor Relations section of [www.scholastic.com](http://www.scholastic.com). Following the call, the slides will be available in the Investor Relations section of [www.scholastic.com](http://www.scholastic.com) and an audio replay will be available at 877-519-4471 PIN number 5760041.

#### About Scholastic

Scholastic Corporation (NASDAQ:SCHL) is the world's largest publisher and distributor of children's books and a leader in educational technology. Scholastic creates quality educational and entertaining materials and products for use in school and at home, including children's books, magazines, technology-based products, teacher materials, television programming, film, videos and toys. The Company distributes its products and services through a variety of channels, including proprietary school-based book clubs, school-based book fairs, and school-based and direct-to-home continuity programs; retail stores, schools, libraries and television networks; and the Company's Internet site, [www.scholastic.com](http://www.scholastic.com).

#### Forward-Looking Statements

This news release contains certain forward-looking statements. Such forward-looking statements are subject to various risks and uncertainties, including the conditions of the children's book and educational materials markets and acceptance of the Company's products within those markets, and other risks and factors identified from time to time in the Company's filings with the Securities and Exchange Commission. Actual results could differ materially from those currently anticipated.

SCHOLASTIC CORPORATION

# EXHIBIT 6

**Q3 2005 Scholastic Earnings Conference Call - Final**

6,870 words

18 March 2005

FD (FAIR DISCLOSURE) WIRE

English

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OPERATOR: Good morning, ladies and gentlemen, and welcome to the Scholastic third quarter 2005 earnings release conference call. At this time all participants have been placed on a listen-only mode and the floor will be open for your questions following today's presentation. It is now my pleasure to introduce Kyle Good, Vice President of Corporate Communications. Ma'am, you may begin.

KYLE GOOD, VP CC, SCHOLASTIC CORPORATION: Thank you and good morning. Before we begin I would like to point out that the slides for this presentation are available for simultaneous viewing by going to our website, [scholastic.com](http://scholastic.com), clicking on Investor Relations and following the links on that page. I would like to note also that this presentation contains certain forward-looking statements which are subject to various risks and uncertainties including the conditions of the children's book and educational materials markets and acceptance of the Company's products in those markets. And other risks and factors identified from time to time in the Company's filings with the Securities and Exchange Commission. Actual results could differ materially from those currently anticipated. And now I would like to introduce Dick Robinson, Chairman, CEO and President of Scholastic to begin our presentation.

DICK ROBINSON, CHAIRMAN, CEO & PRESIDENT, SCHOLASTIC CORPORATION: Thank you, Kyle, and welcome, everybody, to Scholastic's earnings call and presentation for fiscal 2005 third quarter. I'm joined today by Chief Financial Officer Mary Winston who will speak after me and at the end of the call we will both be available for questions as will members of our executive team. We continue to make progress toward the goal we established at the beginning of the year which is improving margins and free cash flow. In the third quarter we achieved higher profits and margins in all operating segments and though the quarter is typically the second smallest of the year we were close to breakeven and significantly reduced our net loss from a year ago. These results reflect growth in higher margin sales, lower returns and bad debt expense and improvements in operating efficiencies.

Revenues also rose modestly in the quarter on growth and education, international and Children's Book Publishing and Distribution. In the latter solid revenue gains and trade and fairs were partially offset by lower

continuity revenues which declined as a result of our strategy to focus on fewer, more productive customers and by 1 percent lower book club revenues. Finally last quarter we generated positive free cash flow. Higher profits in children's book publishing and distribution were led by trade which had higher net revenues and profits in the quarter. By working closely with our retailers to adapt to their inventory management needs we saw returns decline significantly compared to a year ago. Gross sales were also up last quarter particularly with best selling back list titles like In Car, Chasing Vermeer and, of course, Harry Potter, of which more later.

On the front list we've been pleased by sales of a number of titles including Patrick Carman's The Dark Hills Divide, New York Times best seller The Dragon Rider by Cornelia Funke, Klutz Knitting and the first title from our new graphic novels in print, Bone, Out From Boneville by Jeff Smith. Improved product availability and merchandising drove higher revenue per fair in school book fairs in the third quarter which is typically the smallest of the -- second smallest of the year in that business. Fair count also rose with a greater number of schools hosting second fairs. After 15 percent revenue growth in school book clubs in fiscal 2004 our principal goal for clubs this year has been to improve profitability. In particular, we have focused on pricing and cost control. Last quarter we achieved higher revenue per item but this was offset by slightly lower order sizes resulting in a drop of 1 percent in revenues.

Based on this trend we now expect club revenues this year to hold approximately even with last year's very strong results and profitability to increase. For next year we see a number of opportunities to drive top-line growth, especially in revised strategies and product selection and pricing. As we've said before this month we begin rolling out Parent Cool or club ordering online, which should be available to -- through all teachers by this fall. Parent cool allows parents to go online and place orders directly with their child's teacher. Carefully applied this will open many opportunities to grow the club business and build relationships with families. In continuities last quarter our targeted strategy improved the quality of our customer relationships. Aggregate bad debt and returns were down as a percent of revenues while customer pay rates were up.

We are making progress stabilizing this business and customers are responding to our new formulation, value proposition and improved customer service. Building on what we've learned we are testing new products to grow revenues once again. First, we are extending some of our most popular product lines like our new Book of Knowledge Encyclopedia, second, we are adapting innovative products from our education business, for example, we recently began selling a newly packaged phonics based reading program. Finally, we are strengthening our licensing, building on existing deals as the one with Disney for a new Finding Nemo program, as well as developing new deals. With more productive customers and strong new products we believe Scholastic's continuity business is positioned for strong top and bottom line growth. But given the long lead times in this business progress will take awhile to show up in our financials.

The educational publishing segment generated higher margins last quarter on growth in all major areas of this

business including curriculum, library publishing, paperbacks and classroom magazines. Sales of educational technology including Read 180, our scientifically based reading intervention program, were up almost 40 percent. This was a principal factor driving higher profits as was higher circulation revenues from classroom magazines. In international profits revenues and margins increased, in particular operating losses declined significantly in Australia and profits rose in our Canadian and export businesses. In the third quarter we improved profitability and free cash flow and achieved better results in all operating segments. Revenues were also up as strength in some core businesses offset planned declines in others. Based on this we believe we can meet our plan for fiscal 2005 with further improvements in margins and cash flow. Of course our fourth quarter is critical in this regard.

Finally a word about e-Scholastic, our Internet business and its growing impact on our businesses and customer relationships. So far this fiscal year Internet orders are up 20 percent from last year and sales of Internet delivered product or product ordered through the Internet represent now more than 10 percent of the companies revenues and for the year they should reach \$250 million. To drive our Internet strategy further last week we announced the appointment of Seth Radwell as president of e-Scholastic. Most recently Seth was responsible for editorial marketing, media and Internet functions at Bookspan, the major direct marketer of special interest book clubs. With his impressive record building new print and electronic businesses we are very excited to have Seth as part of the management team. Mary Winston will now discuss last quarters results and our outlook for the rest of the year in more detail.

MARY WINSTON, CFO, SCHOLASTIC CORPORATION: Thanks, Dick. As Dick described, profitability improved again last quarter. In a small revenue period we reduced our net loss by \$0.13 to \$0.02 per diluted share or 700,000 and improved operating margins by 170 basis points. Total revenues rose 2 percent driven by growth in education and international. Cost of goods sold as a percentage of revenue was flat last quarter compared to a year ago. Demonstrating progress, managing overhead we reduced SG&A in absolute terms and as a percent of sales to 44 percent from 45 percent a year ago, despite increased costs related to our Sarbanes-Oxley 404 compliance preparations. Finally, lower absolute bad debt and our continuities business contributed to a Company-wide improvement for the quarter, also benefiting operating margins.

Scholastic's balance sheet was stronger at the end of the third quarter with net debt 65 million lower than a year ago. Net debt to capitalization was 35 percent compared to 40 percent a year ago. Accounts receivable declined last quarter. This was driven primarily from improvements in continuities as well as in trade, international and media licensing and advertising. This was partly offset by increases in education on this year's strong growth. As a result overall DSOs, or days sales outstanding, improved in the third quarter. At the end of last quarter inventories were down 16 million from a year ago, as a result of our continued focus on improved inventory management. Payables were lower last quarter partly because of lower inventories and the timing of certain payments. Free cash flow in the third quarter improved to 37 million compared to 20 million a year ago. This

was the result of higher net cash from operations and favorable working capital management, partly offset by increases in prepublication and production spending, royalty advances and CapEx.

Looking at the operating results by business, we see the profits and margins were up in all segments. In the Children's Book Publishing and Distribution segment profits rose significantly on a slight revenue increase, principally because of improved results in trade which benefited from higher growth sales and lower returns. In Fairs revenues rose on approximately 6 percent higher revenue per fair and a 2 percent increase in fair count. In Clubs, after a strong prior year, revenues were down slightly as we continue to focus on improving the profitability of this business. In Continuities revenues declined 19 million as a result of the Company's strategy of focusing on its more productive customers. In educational publishing revenues and profits grew significantly and operating margins rose even as we increased our investment in sales and service to strengthen our successful reading solution strategy. In addition to growth across most areas of the business in particular these results reflect continued strength in educational technology sales which were up almost 40 percent in the quarter, partly from a large order for Read 180.

Higher circulation revenues in our classroom magazine business also generated incremental revenues and profit. In international, profits and margins increased on higher revenues. In local currencies revenues in the segment were up 1 percent. Profits were up modestly in Media Licensing and Advertising, primarily from strong results in software clubs. Revenues declined in the quarter because of lower production revenues and corresponding expenses compared to a year ago when we released Clifford's Really Big Movie in theaters. Corporate overhead increased 2 million in the quarter primarily reflecting certain reversed expense accruals last year as well as Sarbanes-Oxley preparation expenses incurred this year. As shown by the quarters improved results we continue to be very focused on margins and free cash flow. And expect further year over year progress in the fourth quarter. For the full year we continue to expect revenues of approximately 2.1 billion, with club revenue holding approximately level after last year's tremendous growth.

We continue to plan to earn between \$1.50 and \$1.70 per diluted share, excluding severance charges, and we still expect to generate between 40 and 50 million in free cash. We will be presenting our plan for fiscal 2006 at our next meeting on July 21st. We will continue to focus on improved profitability, higher margins, strong free cash flow and revenue growth. And with that I will turn the call back over to Dick.

DICK ROBINSON: Thank you, Mary. As you know we will be publishing Harry Potter and the Half-Blood Prince on July 16th, just before our next meeting. We are well prepared for the publishing, printing and distribution of this much awaited Harry Potter number 6 and we're looking forward to building even more momentum behind this wonderful series. Based on the enthusiasm we are already seeing in the media and among retailers it would appear that Harry is just as popular today as ever. We will announce our first printing in the first few weeks and we will be presenting our marketing program in the month or so after that.

Meanwhile our book selling customers have been creating some wonderful retail marketing plans of their own. Online the title is already number one based on preorders on both Amazon and Barnes & Noble.com. We look forward to the summer and to next fiscal year while finishing this year strongly. I will now moderate a question and answer period. Barbara Marcus, President of Children's Book Publishing and Distribution, Judy Newman, President of Book Clubs and Scholastic at Home, Margery Mayer, President of Scholastic Education, Hugh Roome, President of Scholastic International, will join us. We're now open for questions.

OPERATOR: [Caller Instructions]. Our first question is coming from Peter Appert with Goldman Sachs. Please go ahead.

DICK ROBINSON: Peter, where are you?

PETER APPERT, ANALYST, GOLDMAN SACHS: Sorry , here I am. I may have missed this, Dick, did you talk about any of the operating metrics within the clubs in terms of revenue per order or number of orders?

DICK ROBINSON: We referred to them. We're up in orders. We are down slightly on revenue per order.

PETER APPERT: Okay. And then what's driving the profit improvement in clubs in the context of somewhat disappointing revenue performance?

DICK ROBINSON: Well, I think our pricing strategy and our cost control, but let me ask Judy Newman to talk a little bit about this, Peter, so she can give more color on exactly what's happening in our club program, if that's all right with you.

JUDY NEWMAN, PRESIDENT BOOK CLUBS & SCHOLASTIC AT HOME, SCHOLASTIC CORPORATION: As you know we've been pretty consistent in saying that coming off of last year's really strong 15 percent growth our goal this year was really just to focus on improving profit and margins. So, yes, top-line revenues down slightly but we really believe we are on our plan, we are growing profit. We are on tracked to that. Yes, we've done some cost reductions as well as price increases and that is really yielding the profit results we were looking for.

PETER APPERT: And on a going forward basis should we assume that the club business and maybe even the fair business is relatively mature at this point and we should anticipate fairly nominal revenue growth?

DICK ROBINSON: I don't think so, Peter. Obviously the book business in the United States is entering a mature phase in general. But we believe the market is -- the retail market is only up about 2 or 3 percent. Our channels

are up over the last several years probably closer to 12, 12 percent. And we believe that ongoing revenue growth in clubs and fairs can be in the mid to upper single-digits. It's probably not going to go back into the double digits, at least for the near future. But we've got so many opportunities to improve merchandising in the fairs. We've got -- we keep on refining our strategies in the club business. We really feel very confident that Parent Cool and Cool will open new ways for us to market clubs and get direct revenue from teachers themselves, ordering through the Internet on a somewhat personalized basis. So there is a lot of still a lot of opportunity there.

PETER APPERT: And would that be a realistic target, Dick, do you think, this mid to high single-digit growth for fiscal '06?

DICK ROBINSON: I certainly mid, certainly mid, yes, for clubs and fairs, yes, absolutely.

PETER APPERT: And then last thing I'll ask is the earnings guidance range for the year seems quite wide in the context of how only having one quarter left. Could you just talk to why you are not willing to maybe tighten it up a little bit because certainly the low end of the range would not seem all that optimistic for the front of the fourth quarter.

DICK ROBINSON: Mary will answer that, Peter, but bear in mind that we are getting some approvals from you and your colleagues for doing a little bit better job of forecasting and we've come off some fairly rough years in that regard. So we are not -- we don't want to do anything to change our success record right at the moment. But let Mary address that more directly.

MARY WINSTON: Well, I think what Dick said is absolutely right. I mean I think we are comfortable keeping a wider range, that's typically been our history so even though we are at this stage in the year we are comfortable with that. And the only other thing I will add is that clearly the fourth quarter is a critical quarter for us and it's a really big quarter for the Company. So, you know, we will be watching the quarter closely. We are confident that we are going to be within the guidance that we've put out there but we are also comfortable with the range that's out there.

PETER APPERT: And I lied before, this is really the last question. The visibility in the fourth quarter in terms of trends and clubs and fairs, would it be similar to what we saw in the third quarter in terms of the revenue momentum?

MARY WINSTON: Yes, I think that it is. I think the fundamentals in the business are stable. There is nothing alarming that's going on in the business. So the metrics, just as Dick had already discussed, are pretty much what we saw before.

DICK ROBINSON: And the continuity comps remain quite easy in the fourth quarter? Last year we had a write-down, considerable write-down and the business didn't perform well on an operating basis either. So that would be disappointing if we didn't -- if we didn't do better than last year, Peter.

PETER APPERT: Right, right. Great. Thank you.

OPERATOR: Thank you. Our next question is coming from William Bird with Smith Barney. Please go ahead.

WILLIAM BIRD, ANALYST, SMITH BARNEY: Thank you. It looks like about 40 percent of your operating income in the quarter came from a 50 basis point reduction in reserve for bad debt. I was just wondering if you could talk a little bit about what went into that decision and whether or not that change is sustainable. Also you mentioned that you experienced lower returns in the quarter. I was wondering if you could give us the reserve for returns in the quarter this year versus last. Thanks.

MARY WINSTON: This is Mary. I will start with the bad debt question. The improvement in bad debt is largely driven by the strategies that we've put in place in our direct to home and our continuities business. And as you know we put in place much more rigorous credit policies. We are tracking that much more closely, being much more conscious of the type of customer that we sell to to begin with. So consequently we are starting to see bad debt improvements. Now from an accounting perspective clearly we do have a model that takes into consideration the long-term history. So if we look at our shorter term improvement on pay rates and the fundamentals in the business we would even see more improvement than what we are seeing in the bad debt on the P&L.

So we are definitely comfortable with where our bad debt reserves are and what's behind that is the same calculations and accounting methodologies that have always been in place for looking at bad debt over a historical period of time. In terms of your question around returns reserve, we don't have the details of that available right away but I will get that and I will get back to you. But we did have lower returns in both our continuity business as well as our trade business.

WILLIAM BIRD: Great. Thank you.

OPERATOR: Our next question is coming from Lauren Fine with Merrill Lynch. Please go ahead.

LAUREN FIND, ANALYST, MERRILL LYNCH: Thank you, a couple of questions. I guess going back to Pete's questions on the guidance, could you maybe share with us what would cause you to -- kind of in terms of big changes, what would cause you to come in towards the low-end versus the high-end? And then I will have my

follow-up questions after that.

MARY WINSTON: This is Mary. There is nothing I can think of specific, I mean, that we see in the offing that would cause us to come in low-end versus high-end or any of that. I think clearly it's a big quarter for us and there are unanticipated expenses around Sarbanes. There is a new strategy in place in our continuities business so we continue to watch that closely. It's a big quarter for both our clubs and our fairs business. So the activity in the businesses will be large. So there's just any number of things that, from the volume and the size of that quarter, that could move where we would end up in the range. But there's no looming negative or positive that I would see putting us extremely on one end or the other.

LAUREN FIND: And then I just want to go back to the club business because I'm not sure if I heard you correctly. You raised prices and so the number of orders were down but the revenue per order up, is that correct?

DICK ROBINSON: No, it's revenue per item was up. The order sizes were a bit down. And the -- but the number of orders is about flat, but slightly up, number of orders is slightly up.

LAUREN FIND: Do you worry at all that the pricing is not something you should do sustainably(ph) in terms of the impact it's having on the business.

DICK ROBINSON: I know that's been a concern of yours, Lauren. It doesn't worry me for the following reasons and Judy may amplify this. First, we typically like to keep our club pricing about 30 percent below retail. It had been about 40 percent last year, last fiscal year '04. So we felt we had some pricing flexibility compared to the retail market and our pricing increases were less than 10 percent. The way we applied this we can learn something about, I think Judy was referencing that before. And we think that in the second year we are going to be able to do naturally an even better job of applying our price increase strategy. The other part of it is that we are also improving the template of how we are offering books and we are working hard on that.

So we've got things going on there that is sort of part of the learning process of having raised the prices, now we are thinking about how to make that work a little bit better for the customer and for us. And also improving the structure of how we offer books on the club. So I think there's lots of -- still lots of opportunity and bearing in mind that our clubs, parents support this in every kind of research, are still extremely efficiently priced from the parents' point of view.

JUDY NEWMAN: I would just add that, as Dick said, that clubs are still about tremendous value and so we are still able to offer a lot of value in the books clubs even while we raised prices. We have learned a lot this year both about pricing, what should the optimum pricing mix be, as well as product and we are already working on

our plans for next year kind of incorporating those learnings. And the strength of the teacher orders continues to show that the book clubs are a very important opportunity for teachers to get books and books at great value. We are really not worried at all about the long run.

LAUREN FIND: If I could another question. Could you give us an update on, and Mary, I think this is directed to you, on the book fair warehouse consolidation that you've embarked upon and what the future plans for that might be and then if you've seen any impact on customer service?

MARY WINSTON: Actually I am going to let Barbara take that question. Thanks.

BARBARA MARCUS, PRESIDENT CHILDREN'S BOOK PUBLISHING & DISTRIBUTION, SCHOLASTIC CORPORATION: I believe we've said before that we are slowly decreasing the number of warehouses. We did 5 this year and we have more planned for next year. We are doing it slowly. We are, as you intimated, learning as we go. But we are finding that our customers, once they realize their service is not impacted at all, are quite satisfied. And so this does look to be an opportunity. We are going to slowly ratchet up the number each year but this again is something that we are, I wouldn't say feeling our way, we have a plan and we are on plan to continue to look at what services our customers best and allows us to best merchandise and customize our fairs at the same time as managing our expenses.

LAUREN FIND: Great. Thank you very much.

OPERATOR: Our next question is coming from John Kristiano(ph) with UBS. Please go ahead.

JOHN KRISTIANO, ANALYST, UBS: A question about education. I think you mentioned that you had an increase, I guess, in the sales and service costs,. Obviously there was nice improvement on top-line and nice improvement in profit. I just thought there would be a little more leverage there considering the high growth of Read 180 as well -- and sort of the software nature of that product, if you can discuss what's going on.

DICK ROBINSON: John, I will ask Margery to answer that question. It isn't a big quarter for education and so that may be the -- one of the reasons that the increased sales didn't create quite as much leverage as you might have expected. But let's let Margery take that question and expand on the nature of the Read 180 market. It is true that we have increased sales and service costs but I don't think that's not the reason for the profit issue. There's not an issue. The profits were up 25 percent. But you were maybe looking for more. Let Margery answer that.

MARGERY MAYER, PRESIDENT SCHOLASTIC EDUCATION, SCHOLASTIC CORPORATION: Well, I think Dick said it, it's not a large quarter for us. We feel that we had the best third quarter we've ever had and we think

that we have good demand for our product. We've eliminated or brought down a lot of traditional educational publishing expenses and we are reinvesting some of that in sales and service costs that will, we hope, provide a deeper, more effective relationship with our customer.

JOHN KRISTIANO: Then just one follow-up. I think you mentioned that you having some pretty substantial success with Maya and Miguel and I believe you had mentioned before that books are going to begin to roll-out in the spring. Is that still on plan and is, I guess, this whole program still working? And then sort of related to that are there any other plans to try to roll-out any kind of other products this way where you lead in with the television and then follow-up with the books.

DICK ROBINSON: Maya and Miguel, we said in the release, is doing extremely well on PBS and is a strong, strong program. It has 30 different licensees including some very prestigious clothing manufacturers and other supporters. There's a special program in Target this spring and Barbara will mention the books which we are bringing out at this point.

BARBARA MARCUS: This is a sort of a traditional launch of books after a programming. We do this -- this is sort of the normal progression, so that the books come out the season after the programming is traditional. And we have seen great response. We have clearly have them in all our proprietary channels, clubs and fairs, but we also have gotten -- and they are just on sale now, great pick up from the mass merchandisers as well as the traditional retailers. We do have plan-a-gram placement in both Target and Wal-Mart as well as other retailers.

JOHN KRISTIANO: Great, thank you.

OPERATOR: Our next question is coming from Steven Barlow with Prudential. Please go ahead.

STEVEN BARLOW, ANALYST, PRUDENTIAL: Thanks. Mary, can you talk a little bit about capital spending this year and potential for next year? And then you mentioned SG&A is down for a number of reasons. I was just curious whether or not headcount was one of those reasons. And then the last question would be, if you could tell us how many schools have 2 fairs a year scheduled this year versus last.

MARY WINSTON: Okay. In terms of capital spending we are, even though in the quarter spending is higher than it was a year ago in the third quarter, on a year-to-date basis we were tracking at about a little less than 60 percent of our year-to-date budget. So our spending is definitely under control for the quarter. It was actually cash flow positive, so it's less than depreciation for the quarter. We do expect to be on plan for CapEx and I think the guidance we gave on that was 50 to 60 million and that's where we expect to be. So there's nothing unusual happening there.

As far as next year is concerned we are right in the process of starting our budget process and setting our plans and reviewing capital projects for the coming years. So we have not set that yet. We will be in a position to talk about that in July. We are going through our new resource allocation process with capital as well as other investment decisions. So we will be scrutinizing that on the appropriate metrics so we will be able to talk about that in July. In terms of the SG&A, we do have some headcount reduction. It's not -- not significant, so it's a modest headcount reduction. And then it's just focusing on other overhead spending.

STEVEN BARLOW: Then the fair count, please?

MARY WINSTON: Fair, the question was. I will let Barbara answer that question. But the question was the number of schools that have 2 fairs now compared to those that only have one.

BARBARA MARCUS: Right. I think that we have about 60 percent of our schools have second fairs. We are working that. At the same time I think what's important to realize is that we have focused this quarter and will continue to focus on schools that truly can handle second fairs which is why you are seeing the smaller increase in fair count and the larger increase in revenue per fair. Yes, we are going after second fair count but only when we believe that the school itself is ready, willing and able to handle a second fair.

STEVEN BARLOW: And related to that what are your bookings then on the fourth quarter versus a year ago?

BARBARA MARCUS: We are on plan for the same kind of increase that you have seen this year. And we are confident at this point that unless something happens weather-wise or something that we will achieve that increase in fair count.

STEVEN BARLOW: Thank you.

OPERATOR: Our next question is coming from Brandon Dobell with CSFB. Please go ahead.

BRANDON DOBELL, ANALYST, CSFB: Good morning. Mary, a couple of quick ones. As you think about the balance sheet, maybe some target DSO or target inventory metrics, how much room you think might be there on the working capital management side? And then more of a general question in fairs, and actually and perhaps clubs, as you look across the different programs how much variance do you see in the performance of kind of similar or like programs? Is there areas where you think for some reason the region is doing quite well and those are using different products or different timing or different something like that, sort of a feel for how representative the average is of the entire business for both fairs and clubs.

DICK ROBINSON: Well the fair and club question is an interesting one, both are and both are part of our

strategy. There is variation in our fair business from region to region. Some of this is management. Some of it is product. Some of it is weather. But there is variation and there is quite a bit of economic stratification in the fair business and all of that is being focused on by the fair management who -- which is working quite nicely on segmentation as one of their key strategies for building the fairs. Similarly we have 3 different brands of clubs, Brandon, as you know. We've got the scholastic core clubs. We have the Trumpet, which is a sort of higher end brand, and Troll Carnival, which is our mass market lower price brand. So we've got kind of a stratification there built into the business. But this is all very relevant to a strategy that I think everyone is pursuing.

But we are certainly pursuing it which is the segmentation identifying niches within the market and how to best serve those niches. There are some -- obviously, both fairs and clubs are mass businesses. So there is a cost and a management issue with segmentation. But both of those are very much overcomable and we look forward to some improved results based on a segmentation strategy. Your question on inventory is very welcome since this is one of our major strategies and we did show some progress this quarter. So Mary will talk a little bit more about that.

MARY WINSTON: Okay. Yes, Brandon, as it relates to inventory, as Dick just indicated, managing our inventory is definitely one of our biggest priorities. So we've made it a priority across the Company, across all of our businesses. We have put in place a team of people who is looking at that and managing it. So it's a key priority. In terms of setting specific targets, we will be doing that as part of our budget process so I don't have any specific targets that I can share with you at this point. But just be assured that it's a high priority for us and we are looking at it across every business unit. And the same goes for DSO. That's something that we are looking at as well.

BRANDON DOBELL: One follow-up on your comments, Dick, about the different segments or different club types. Has there been any change in how the mix looks there as we think about that business last year versus this year and kind of how to think about a sustainable growth rate or a pricing situation? How much -- has there been a change in the mix of core versus Troll, for example, and do you guys anticipate trying to use one club more than the other in different markets or something like that?

DICK ROBINSON: That's all relevant. It's a very good question and really part of our strategy. The Scholastic core clubs, and Judy can amplify this, are by far the largest and most profitable. Those are the ones we really focus on the most. Troll has done well and continues to show advances. We're using these and I think we can use them even better to go after particular segments, economic segments, of the market and style segments of the market. Judy will talk a little bit more about that.

JUDY NEWMAN: Yes, one of our strategic objectives is to clearly differentiate the 3 brands, Trumpet, as Dick said, an upscale brand, and Troll, more a mass market; lower priced club. We also find that teachers, because

they have a community of students within a classroom, will use multiple clubs to serve the different needs of the different children. So we have kind of an in place segmentation if you will. Another opportunity for segmentation is our Scholastic special offers which are also used in conjunction with the core clubs and teachers can use those for curricular needs. So, again, by different segments, higher demographics, people can use more and so on to really build their participation in the clubs.

BRANDON DOBELL: Okay. Thanks.

DICK ROBINSON: That help, Brandon? Thank you.

OPERATOR: Our next question is coming from Jim Peters with Standard & Poor's. Please go ahead.

JIM PETERS, ANALYST, STANDARD & POOR'S: Thank you. Switching gears for a minute, just wondered if you could comment on the timing of implementation of FAS 123? And following on from that to what degree have you factored the impact of the options expensing into your goals of 10 percent operating margin. Thank you.

DICK ROBINSON: Excellent question and one I will be delighted to have Mary answer . The 10 percent margin, we have that as our goal, right?

MARY WINSTON: That's right. As it relates to FAS 123, because we are a fiscal year Company with our year-end in May, we are just starting to look at that and it will come into effect for us clearly at some point in '06. So we are just going through the process of evaluating how and exactly when we are going to implement that. So, we'll have more to say about that later. Then your margin question around the 9 to 10 percent. We've always said that that was our long-term goal. We're happy with the progress that we are making toward that goal and we feel that we are on track to achieve that in the time frame that we set out which was the 3 to 5 year timeline.

JIM PETERS: Would it be fair to say then that would incorporate the options expensing as well, that goal.

MARY WINSTON: Yes.

JIM PETERS: Great. Thank you.

OPERATOR: At this time I would like to turn the floor back over to Richard Robinson for any further closing remarks.

DICK ROBINSON: Thank you very much. Thanks to everyone for their interest in our third quarter and for the

excellent questions which were fun to answer and I hope we were responsive. We are -- the fourth quarter, as Mary said, is important so we know we need to do well in this quarter. We are looking forward to next year and we feel we are making progress in some of our fundamental goals. So thank you for your attention and for your support of Scholastic.

OPERATOR: Thank you. This does conclude today's teleconference. You may disconnect your lines at this time and have a wonderful day.

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FINAL TRANSCRIPT

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## **Conference Call Transcript**

**SCHL - Q4 2005 Scholastic Earnings Conference Call**

**Event Date/Time: Jul. 21. 2005 / 8:00AM ET**

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## CONFERENCE CALL PARTICIPANTS

**Unidentified Audience Member****Second Audience Member****Lauren Fine**

*Merill Lynch - Analyst*

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## PRESENTATION

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**Operator**

Good morning ladies and gentlemen and welcome to the Scholastic fourth quarter year-end earnings conference call. At this time all participants have been placed in a listen-only mode and the floor will be open for your questions following the presentation. If at any point during the presentation you would like to register your question please press star 1 on your touch-tone phone. It is now my pleasure to turn the floor over to David Nelson, Vice President of Investor Relations and Treasury. Sir, you may begin.

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**David Nelson - Scholastic - VP Investor Relations and Treasury**

Thank you. Good morning. Before we begin I'd like to point out that the slides for this presentation are available for simultaneous viewing by going to our web site Scholastic.com, clicking on investor relations, and following the links on that page. Now, before we begin, I'd like to also point out that the presentation contains certain forward-looking statements which are subject to various risk and uncertainties including the conditions of the children's book and educational materials markets, and the acceptance of the Company's products in those markets and other risks and factors identified from -- by -- from time to time in the Company's filings with the Securities and Exchange Commission. Actual results could differ materially from those currently anticipated.

Now, I'd like to introduce Dick Robinson, Chairman, CEO and President of Scholastic to begin our presentation. Thank you.

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**Dick Robinson - Scholastic - Chairman, CEO, President**

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Thank you. Thank you, Dave. Good morning to all, including our investors, the analysts and the wonderful members of Scholastic management who are here in the audience as well as those that are on the stage. I think we put everybody on the stage that would fit, and then those who couldn't fit, are here in the front row. So we're -- we're all here to talk a little bit about our 205 year and where we're going for 2006. We've got people on the telephone so we've -- we've got two audiences here. Those that are present in front of me, and those that are on the phone so we'll keep both of them in mind as we present and ask questions.

Before we talk about last year, let's start with a little magic from our current fiscal year. As the world knows, last Saturday we released Harry Potter and the Half-Blood Prince, the sixth book in the seven-book series and sold over 6.9 million copies in the first 24 hours alone, which are statistically-minded chief counsel calculated as an astonishingly 80 copies per second, easily surpassing book five and our retail accounts are reporting that through yesterday, our -- our -- the sales remain very strong. And of course, all of us are proud and many of you in the audience here from the staff and certainly those on the podium are -- are proud of Scholastic's role in the marketing, publishing, selling, manufacturing and shipping of this great creative work by Jo Rowling which was the largest book release in --in history. Some very tired people from the staff, but very happy are present here celebrating that great achievement.

In fiscal 2005, we hit our targets for higher earnings per share and operating margins, and -- and those of you who were here last year will remember that that was the Number 1 focus for the -- for the year, improving our operating margin. And that was despite lower revenues compared to 2004, when we released Harry Potter 5, and this year we -- this 205 year we also exceeded our targets for free cash flow. We strengthened our core children's book business, we produced strong gains in education which had a -- a marvelous year, great year. We stabilized our direct-to-the-home business and improved results in international and successfully launched a new media property, Maya & Miguel. We also continued to strengthen our management team with key appointments in children's books and e-Scholastic.

Our principal focus, as I said, remains on expanding margins while growing revenues. Sounds simple but that's the -- that's the main thrust of the Company. Higher margins in our core children's book business will come, we think, from better information about our customers, leveraging our products more systematically across our channels, driving costs and operating efficiencies, and moving more of our business to the Internet. To grow the company beyond our core children's book business, which we have been doing steadily, we are doing several things. Three. First, partnering with schools to raise student achievement by building on our leading position in education technology; second, helping parents to help their children's learning at home by leveraging our creative strengths and our strong trusted relationship with young families; and third, meeting the global demand for reading and learning, especially in English, that's outside the United States as well as inside. In Children's Book Publishing and Distribution, we're trying -- we're going back to viewing this business as a whole rather than as a series of -- of collect -- of divisions and activities. We're -- we're bringing our channels closer together to achieve higher margins as well as long-term growth. There're several ways we're doing this.

First, our -- we're investing in technology to help us know more about our customers and communicate more easily with them. In book clubs, for example, online ordering has been a huge success. Our customers find it simpler, and we get better data on what they buy. We expect similar success as more parents use Parent Cool, which we tested last year, that is our parent -- the parent version of our club ordering online for teachers. In book fairs, new customer relationship management tools enable our book fair sales people to segment, target and track the 120,000 fairs we conduct annually. We've got something called Customer Connect, which is realtime online service for our sales people right own our desks as they call the book fair schools. But we also have online sales tools for our customers, such as the chairperson's tool kit, again, an Inter -- a web-based direct link with fair organizers, they can dial it up and see how to run a fair. We're also introducing new systems to get more timely and detailed sales information, which will, in fairs, benefit product acquisition inventory level and better positioning of product for sa -- for sales and distribution.

In trade, we're creating stronger relationships with our ac -- with our accounts. This showed up a bit in last year's improved sales and lower returns, as well as the great bonds forged in the past several months by our successful Harry Potter 6 launch with our retail customers who are all very pleased with the way we handled that -- that launch. Customers all -- all across -- across all of Scholastic rely on Scholastic.com, which has become a top-rated content and commerce site for parents, teachers and children. In fact, last year our -- our Internet sales, including book club orders, were almost 240 million, and interestingly enough this ranks us as the Number 3 Internet book seller in the world as well as being in the top 50 e-commerce sites, an interesting statistic for those of us who have been working on that for a long time.

Second we're -- we're using better customer information from our direct channels to create and mar -- and market better products. And we've always had the ability to know what kids buy through our book clubs. But we're continuing to refine that information and -- and pair it with book fair information that we also get and bring this to our trade people who then help create better product, as well as selecting better product and choosing better product in clubs and fairs. And this -- this results in -- in many good things for the Company. We're focusing on this, and enhancing and improving it, you'll hear more about that in the question-and-answer period.

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This has several effects here. One, we contri -- we continue to cro -- create cross-channelled best sellers with talented authors like Cornelia Funke; Dav Pilkey, of Captain Underpants; and Jenny Nimmo, the author of Charlie Bone, a book that started in book fairs, and then went in the trade and is now a New York Times best seller. We are focusing product development on key areas of -- key areas of opportunity identified by our customers. This includes babies and toddlers. We also have a new interactive Early Years product line from Klutz called Chicken Socks and ver - and new reading platforms that we'll talk a little bit more about later. We also are creating cross-channel products with our high quality film and TV entertainment like Maya & Miguel, which launched last year and is the highest rated program on PBS for school-age kids and has spurred books and other product sales in other channels.

More custor -- customer information also improves marketing and merchandising. In clubs this fall new offers in product presentations will, we think, drive top line growth as we build on what we learned from last year's pricing strategies but also innovate some new ways -- of presenting our -- our product. In fairs, improved customer and sales data will make merchandising more responsive, driving higher revenue per fair. And third we're improving our cost reduction efforts to a new level as we are putting our staff through the new Six Sigma -- now to us, Six Sigma methodology. These are several ways that we're moving to improve the -- this revenue growth and the bottom line of our core children's books business, which we're -- as I say, we're focusing on that as -- as an entity where we're trying to work together to improve both the revenue and the margins and we are -- I think we're already seeing some good signs of success in that area.

Moving to education, which had such a great year, we're really creating a new business model here. We -- we call it partnering with schools to raise academic achievement, but it's based on more than just our great product READ 180. It's really a new service and support model, which we call partnership or solution selling. And why -- why are we doing this? As the just-released NAPE data showed, there's been little growth in middle school and high school achievement, there's been good growth in -- in early years achievement. But two out of three adolescent students still read below grade level and only a third of them are reading at what is called proficient. The others are reading at either basic or below basic, all of which is below grade level.

Meanwhile, educators need to meet the legal requirements of no child left behind, leading them to look for new solutions and, therefore, opening the door for READ 180 and other products and services, of course, from Scholastic, but also for a partner in helping them solve the -- the problem of how to raise the scores of struggling adolescent readers. The success of READ 180 shows how technology is now front and center in America's classrooms providing teachers and administrators with realtime data to make the right instructional decisions for their students. This may explain why technology now makes up more than 30 percent of education sales, but kids really have -- love using the computer and the computer is able to spot their weaknesses and build on those -- build on their strengths. So it's moving toward sort of an individualized mode of instruction and that's part of the reason why technology is so successful. But technology -- using technology in the schools is -- is a new thing on a widespread basis and it requires a new model.

READ 180 is -- is a great product, yes, the most validated and researched intervention program available. But in our -- in our new paradigm, we also need to provide technical assistance, that is making sure the computers work; professional development, making sure teachers really know how to use the program; and educational support teams, people who are trouble shooters going out and calling on schools and saying is this program working, or there's a school over here where it's working great but over here or even a classroom within the same school, over here we need a little bit more help so we bring in special support for the places where it's not working. This is really a new thing in educational publishing, although this is been going on in the software business for -- for some time. But this is a new way of looking at this business, a new way of conducting it. And you may -- Margery may be able to en -- enhance that a little bit later.

This year we're offering a new READ 180 addition, which we're calling ent -- READ 180 Enterprise, which is both an upgrade to our installed base and, of course, to new customers, much more powerful and -- and robust. We also have several new technology launches, really quite a few. Zip Zoom, a new learning system for K2 English language learners, which supports language ac -- acquisition and beginning reading skills. Now there's not that much out there for young ELL students, that is kids who -- whose primary language is other than English coming into first, second and third grade, and they -- there's not much there to help them. So Zip Zoom is -- is a tested program created in Hawaii in a federal lab, which we think has great potential. And our customers are responding to it.

Fast Math, already a fast-selling program, is a targeted program created by the author of READ 180 to guarantee fluency with math facts, that's coming through our Tom Snyder Productions. We're also expanding our course offerings for RED, which is our rap -- rapidly growing online professional development business which had a -- a terrific sales gain from a small base this past year but which is part of the new paradigm we're talking about professional development programs being done by teachers online. So we've transformed our sales model, moved away from a textbook paradigm to one which puts greater focus on service and partnering with our customers to ensure that our programs work.

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But print products are working well, too. It's not just technology. We're seeing gro -- great growth in sales of books and magazines and certainly profitable growth. Sales have been particularly good among reading first schools as they enter the third year of federal funding and are looking for high-quality classroom libraries and other print to boost reading scores. In other words, once the kids can read, what are they going to read? So we're -- we've been successful in getting large school systems to buy classroom libraries here in New York City, there's one in every single classroom -- classroom library from Scholastic from K to grade 9. And we expect this trend to continue, therefore, publishing several targeted products such as Math Libraries by Marilyn Burns, also getting a great response, which -- she's a note -- a noted math educator who is particularly popular with teachers. So our print is still right in there. So new paradigm in education, still supporting with wonderful reading materials, terrific growth in that area, beautiful improvement in margins, very strong momentum in that business.

Scholastic's second growth opportunity is to extend the brand values of our Company to parents through the direct to the home market. Parents are increasingly concerned about how they can help their children develop and be more successful as readers and learners. They no longer see the school as the sole place for education to take place. They feel that they've got to take more responsibility themselves for their child's education. And our -- Scholastic's trusted reputation and our good relationships with parent customers help us to help them meet this need. How are we doing this? We're building on our existing relationships with families through our continuities business.

Last year, Scholastic at Home primary direct channel to families of young children imple -- implemented a revised strategy of focusing on our most productive customers. We've talked about this before. And but we -- we did it. It worked. Improved targeting, better service and a shift toward lifetime customer value will all continue in fiscal 2006 as this business has become stabilized and we're now putting it back on a path for growth.

Second, we have some innovative high-quality learning products in several different places. This fall, our media group will introduce Read With Me DVD, I hope some of you can see it upstairs after this session. This is a product we're developing in partnership with Fisher-Price. Fisher-Price is marketing it through their retail channels and it's got a nice early introduction. We're also aggressively launching products through Scholastic at Home, like Scholastic Phonics, Scholastic Classics, a library of great children's literature, Vegitales, which many of you know about, very good response, and a -- and a new -- new book of knowledge, all of which have proved successful in -- in tests as well as continuing our popular programs like Dr. Seuss, Disney, Nickelodeon, and a newly refreshed Baby's First Steps to Learning. We've also seen strong growth in our Back to Basics toy catalog business, in which we are successfully marketing high quality educational toys direct to the home both in print and online.

And third, based on our -- our 10-year commitment to building our Internet business, we're also in -- in a very good position to use the Internet to reach families directly as -- as described earlier. Building on these strengths is a key focus of Seth Radwell and our new president of e-Scholastic and his team. And I'll introduce you to him in a few moments. Finally we'll meet the growing global demand for reading and learning outside the United States especially in English by leveraging our core strengths in children's book and reading and our extensive global presence. We are profitably growing subsidiaries in Canada, the U.K., Australia and New Zealand, those are our -- our -- our long-term businesses that we've been in for many years. Last year we made dramatic progress in Australia, reducing costs and growing revenues. In Canada we're building fairs and education on a very clubs -- very solid clubs and trade foundation. And in the U.K., we've made significant changes throughout the organization to increase marketing effectiveness and rebuild our -- our trade business.

We're building the export business, too, with the launch of international COOL, which enables international schools around the world to use the Internet to order book clubs. Through a major State Department contract, very exciting to all of us here, we developed the first Arabic language children's book libraries, which we will sell later this year in -- in several Arab countries. Exports of English language teaching material in Asia are growing rapidly driven by products like Zip Zoom, which we talked about before, as well as our broad array of inexpensive paper backs. We're adapting our school based distribution models in -- in Asia and Latin America where clubs and fairs are exciting new concepts and a single book fair can draw over 30,000 people as happened in a fair in Philippines last year. And we're -- we're targeting and adapting literacy education products to meet the rising demand for English language learning in Asia both through exports and through developing a new presence locally.

So last year we met or exceeded our key goals for margins, profits and free cash flow, while strengthening the core children's books business, continuing strong momentum in education, making progress in continuities and international. These results show our progress as we leverage our strengths for profitable growth. Last week's phenomenal launch of Harry Potter and the Half-Blood Prince was a great start for fiscal 2006, and -- and we are confident that we -- with the new management team, too, as well as the people who have been with us for several years, I'm confident we can build our business in the three ways I've discussed with you, by better use of customer information, better products through closer collaboration across channels, lowering costs of manufacturing distribution, all leading to improved margins in our core children's books business.

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Second, driving growth in education, home learning= and international. All of these leading to improved margins and renewed revenue growth. That is our story more broadly for 2005 and our strategy going forward. Mary Winston, CFO, will now discuss our results for the fourth quarter and after that, I will introduce the people here on the stage and we'll have some questions and answers directed to-- to any of us. Mary, your turn. Okay.

**Mary Winston - Scholastic - CFO**

Okay. Thank you, Dick. Good morning, everyone. As Dick has described, we're very pleased with our results for fiscal 2005. We exceeded our guidance for earnings of free cash flow, we've improved margins in the financial strength of the company overall and we've laid the foundation for our margins to continue to improve in the coming years.

As we stated last year, Scholastic has several top financial priorities. First, increasing profitability of our individual businesses, but also looking collectively across our businesses and leveraging and increasing the profit -- profitability of the Company overall. Second, improving free cash flow and shareholder value. Thirdly, we're focussed on improving capital utilization and our long-term financial returns. And finally, on ongoing -- our -- an ongoing priority is to improve our key financial processes and maintain strong internal controls. I believe we've made considerable progress in all of these areas last year and I'll describe in a minute our margins, profits and free cash flow and how we improved that for the year.

For fiscal 2005, overall revenue was approximately 2.1 billion and declined 7 percent from the prior year. As you will see when we review the results by segment, declines in children's book publishing and distribution as the result of the expected lower Harry Potter sales and the new strategy in our continuities business were partially offset by strong growth in education and international. Cost of goods sold declined from 49 percent of revenue to 47 percent, reflecting growth in higher margin education technology sales and higher costs associated with Harry Potter in the prior year. SG&A declined 21 per -- 21 million or 2 percent. Excluding the year-over-year difference in the continuities related charge, SG&A declined 10 million, reflecting lower selling and marketing costs offset by expenses associated with Sarbanes-Oxley compliance. Bad debt expense declined dramatically as our strategy for the continuities business focussed on our more productive customers. Aggregate bad debt and returns were down while customer pay rates were up.

On a GAAP basis, fiscal 2005 diluted EPS was \$1.58 per share, up 10 percent from the prior year. As we have previously stated, this includes a \$0.06 severance charge incurred in the first quarter of the year associated with the restructuring of our continuities business. Without this charge, full-year earnings per diluted share were \$1.64.

Now, we'll look at the segments. In children's books publishing and distribution, revenue declined 5 percent last quarter, principally due to lower sales and continuities, consistent with our strategy for that business. However, profits and margins rose in the quarter, even after adjusting for last year's continuity related charge. These positive results were driven primarily by continued improvements in trade, and continuities and the year-over-year growth in fairs. For the year, segment revenues were down 15 percent, reflecting these same factors as well as the anticipated decline in Harry Potter sales. As a result, absolute segment profits for the year declined.

In clubs, after our strong 15 percent growth in fiscal 2004, revenues were down approximately 2 percent for the year. Primarily driven by a -- a slight decline in revenue per order. Building on the -- what we learned about last year's price changes, we anticipate that improvements in product selection and presentation and cost control initiatives will allow the business to return to top line growth and higher margins in fiscal 2006.

Fairs were an area of growth last year, and improved merchandising and product availability improved revenue per fair by 4 percent and stronger marketing resulted in a modest increase in fair count.

We have previously outlined the strategy for our continuities business, and Dick talked about it, and I'll just reemphasize it here, and that is to focus on more targeted promotion spending, better customer service, new product development and a shift toward higher value customers. While this has resulted in lower revenues as anticipated, we have also lowered bad debt and returns as a percent of revenue and have improved our customer pay rates. As a result, continuities profitability improved last year and in the fourth quarter, even excluding the charges included in the prior year and the first quarter numbers. We now believe that this business is on track to grow profitably in the future as Dick has described.

Finally, lower Harry Potter revenue was the primary cause of lower revenues in the segment and in trade for the year. However, this decline has partially off -- -- was partially offset by our successful growing of non-Harry Potter back list sales and lowering of returns. We believe this result reflects the strength of our core publishing program and the tighter relationships we've formed with book sellers over the past year.

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Education publishing had another strong year. Profits rose in education publishing by 41 percent last year or 23 million, building on strong growth in the prior year. Revenues for the year were up 10 percent and in the quarter by 5 percent. Operating margins also rose dramatically for the year, and in particular in the fourth quarter, largely reflecting strong growth in higher margin education technology products. As Dick described, a key driver of this impressive result in education technology is sales -- is education technology sales totaling 124 million last year, up 40 percent from the prior year. This validates our strategy of partnering with education to raise achievement by providing reading solutions. READ 180 is one of the leading components of the education technology sales last year. And continues to be the leading technology-based reading intervention program in the U.S. Sales were also up for other technology products and services including Scholastic RED and Grolier online. Overall, education publishing had a very strong year, complementing our education technology revenue from classroom libraries, classroom magazines, and library publishing also rose strongly last year, showing demand for high quality reading products especially when offered as part of a reading solution.

In international. Revenues in the international segment rose 8 percent in the fourth quarter, and 5 percent for the year. And local currency revenues were up 2 percent in the quarter and they were up slightly for the year. For the year, strong revenue growth in the core children's books businesses in Australia and Canada was partially offset by declines in the U.K. as we invest in restructuring that business. Profits in the international segment rose 25 percent last year and were up significantly in the fourth quarter, driven by higher profitability in Australia as well as our export business.

Media licensing and advertising is a business that has a lot of synergies with our book publishing businesses. As we've said in the past, the strategy for this business is to drive brand awareness that leads to greater book sales elsewhere in Scholastic. Likewise, it works both ways. The school-based channels within school book -- children's books publishing and distribution support the software business, which is reflected in the Media Licensing and Advertising segment by selling those products. In fiscal 2005, we improved our ability to quantify and appropriately allocate costs and profits to the software sales, which are reflected in this business. Resulting in a reallocation of greater profits from children's book publishing and distribution to this segment. For comparability we also adjusted the prior year's profit allocation to be on the same basis.

Revenues in media licensing and advertising rose 20 percent in the fourth quarter due to higher production and licensing revenues from Maya & Miguel and strong sales in consumer magazines. For the year, revenues in the segment were down slightly, and for the year -- as the year's production and licensing revenue for Maya & Miguel, mostly offset revenue associated with the prior-year release of Clifford's Really Big Movie.

Corporate overhead's increased 4 million for the year to 78 million. Controlling costs has been and will continue to be a priority for Scholastic. During fiscal '05, overall cost reductions, however, were offset by increases in costs associated with the preparation for Sarbanes-Oxley comp -- compliance.

As described in yesterday's press release, we performed a comprehensive review of the Company's lease accounting practices. Following last February's release of a letter from the office of the chief accountant of the SEC regarding lease accounting. In our review, we determined that some of the leases which were previously accounted for as operating should have been accounted for as capital in accordance with FAS-13. We also determined that some operating leases did not consider future payment escalation clauses in determining lease expense. While we do not consider these lease accounting corrections to be material in any one year, the cumulative impact if recorded in the current year would be material. And so we -- therefore, we decided to restate the prior years to provide additional financial clarity. Our restated financials will be reflected in this year's Form 10-K which will be filed before August 15th.

As you can see from this slide, the principal impact of these adjustments is on the balance sheet which increases -- with increases in net property plant and equipment, deferred taxes and capital lease payables reflecting capitalization of leases primarily in our New York City offices. The decrease in retained earnings as well as the minimal P&L impact is the result of both the capitalization of certain leases and the straight line treatment of rent escalation clauses and the operating leases. It's important to note that these adjustments have no impact on historical or future cash balances or on the timing or amount of our lease payments.

Scholastic continued to generate strong free cash flow in fiscal 2005, significantly exceeding our guidance of 40 to \$50 million. Key to this success was continued strong cash from operations generated by higher earnings and tight working capital management. Free cash flow also benefited the cap -- by capital spending at the lower end of our guidance range with the timing of some of these capital projects shifting to fiscal 2006. Though not part of our definition of free cash flow, proceeds pursuant to employee stock plans increased by 24 million last year, also contributing to cash at the end of the year. Please note that ca -- cash flow in both years is increased by higher capital lease amortization resulting from lease adjustments in both periods as just discussed.

Looking at the balance sheet, cash and cash equivalents increased by 93 million to 111 million at the end of the fiscal year as a result of strong positive cash flow. This excess cash is being used to fund our seasonal working capital needs during the first quarter of this year. Overall, the

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Company's financial position is significantly stronger, with net debt declining by 108 million at the end of the year and net debt to capitalization down to 29 percent from 37 percent a year ago. We continue to focus on improving our management of inventory levels, and excluding paper inventory of approximately 6 million related to the launch of Harry Potter and the Half-Blood Prince at year-end, and foreign change effects, inventory would have declined by about 2 percent last year. As we begin fiscal 2006, we're excited about last year's progress and the strategic plans that Dick has described to achieve higher margins and top line growth.

Now, let's look at this strategy in the context of segments for 2006. In Children's Books Publishing and Distribution, of course, the record breaking sales of Harry Potter 6 will generate a significant increase in trade sales predominantly in the first quarter while we expect a solid front and back list, a focus on lower returns and tighter relationships with book sellers will drive further improvement throughout the rest of trade. We believe that better customer information, which in turn is improving merchandising and offering, will help drive modest top line growth in clubs. In fairs, we expect more responsive merchandising to continue to drive higher revenue per fair, especially with more targeted fair bookings and better sales visibility, while investments in this business to improve the efficiency will have a longer term impact on profitability. In continuities, we expect revenues to be flat or up slightly and revenues to increase in this business now that it has stabilized and profits to increase. For educational -- in educational publishing we expect growth across the business led by solution selling and education technology. In international, Australia, Asia direct sales, and exports should continue to deliver strong results as we build clubs and fairs in Asia and invest in rebuilding the U.K. business for the long term. Finally, in Media, Licensing and Advertising, revenue and margins will benefit from a focus on more aggressive licensing and additional production and selling of our top rated TV programs.

Aggregating across the segments, our outlook for the full year is revenue of 2.3 to 2.4 billion. We expect margins to raise significantly in fiscal 2006 partly because of the large first quarter increase in Harry Potter sales without a corresponding increase in overhead. But also because we're focussed on achieving sustain -- sustainable improvement in margins through growth in higher margin technology sales, strategic pricing actions, more targeted promotion spending, lower bad debt, and ongoing cost -- cost reduction programs. With higher revenues and margins we're projecting a diluted EPS range for the year of \$2.30 to \$2.50 per share. As we've said in the past, many of our businesses are seasonal and this materially -- materially effects quarterly revenue and earnings. Typically, our first quarter during the summer months when the U.S. schools are not in session is small -- or small revenue quarter and generates a loss. Though this will be partially offset this year by the sales of Harry Potter.

We anticipate capital expenditures of 65 to 75 million to make additional investments in the enabling technologies that Dick has described. Based on these assumptions we expect to generate free cash flow of 85 to 95 million next year. Overall, our positive outlook for solid revenue growth, improved margins, strong free cash flow in -- in fiscal 2006 builds on the progress we've made in fiscal 2005 and reflects our long-term strategy to expand margins and drive growth. And now I'll turn the podium back over to Dick.

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**Dick Robinson - Scholastic - Chairman, CEO, President**

Okay. Well, first we're going to give you a test on lease accounting. Okay. Well, you've gotten this -- the sort of dry version of Scholastic, right? The excitement is -- if you -- any of you, of course the staff all saw this, but any of you who came by the Harry Potter place last Friday night to see some of the reality of how we touch people throughout the United States and the world, and one of our investors here told me that he walked by and he was astounded to see all the activity and the faces and the children and the wands and the painting and -- and it was a truly great thing. And that -- we really do have to remember that that's what Scholastic is throughout the world, just touching millions, and millions of people and helping children learn how to read more. Both love -- learn to love to read and also learning how to read. And that that's our -- that remains our key mission, and that we have -- we're selling lower-priced products, most -- mostly to people all around the world and touching, you know, millions and millions of -- of lives that -- that teachers, parents and -- and children.

Now, we're going to move to having you meet some of the people on -- some of the newer -- newer people here and also addressing some of the issues that we have. But let me go across the group here. Sitting next to Mary is Lisa Holton, who has been with the Company for about two months and is the President of Trade and Fairs; Judy Newman, the President of Clubs and Home; Seth Radwell, the President of e-Scholastic and new to the Company; Margery Mayer, who's been a great partner for me for 15 years, and having her greatest year, yes?

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**Margery Mayer - Scholastic - EVP and President, Scholastic Education**

Totally.

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**Dick Robinson - Scholastic - Chairman, CEO, President**

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I thought so. And Hugh Roome, President of International. Margery's President of Education. I guess I assumed everybody knew that. And International had a terrific year this year and we're -- we're very proud of what we're doing there. Deborah Forte, President of Scholastic Media including Scholastic Entertainment, responsible for Maya & Miguel as well as the software and Beth Ford, head of glo -- head of global operations for the Company and driving many of the cost reduction and efficiency projects and -- and better information products in the -- in the IT operations.

So, here's what we thought we would do. Judy will talk a little bit about what we're doing to move the clubs back to rapid -- or improved growth next year, then I'm going to ask Lisa Holton to make a few observations about her two-month experience so far with fairs and trade, and then Seth will give you what he refers to as his 90-second commercial for -- for e-Scholastic, then we'll go -- we'll move to questions-and-answers, and I'm -- I'm sure you will have questions for the other people here on the -- on the stage. So we're -- this -- we're moving to the entertaining part of our presentation now, starting with Judy who will tell you what we're going to do with clubs for '05, '06, and believe me, it's a very exciting program coming forward this year.

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**Judy Newman - Scholastic - President, Clubs and Homes**

Okay. So coming off of 15 percent growth in '03, '04, we knew we couldn't really reliably sustain that kind growth with a -- without a real strategic plan. So our goal this year was to really maintain revenue, focus on costs and profit, but really invest in learning a lot so we could, for the long term, really build a plan that we could build on long-term growth. So our goal, we had to grow three strategies that -- that we spent a lot of time learning on and we're going to take those learnings, and those are the basics for next year's plan. And that's really the foundation for our growth.

So the first is we're taking what we learned about pricing and we're taking that and we're combining it with a real wholesale evaluation of what kids are buying by category, by product category. So we're combining product category analysis with pricing, and we're combining that into what we call a merchandising template. So we're using our Student News and we've got it organized by product -- product category and with a pricing overlay and our category managers are now creating their catalogs with a whole new set of real data which we know is going to drive student -- student buying.

Secondly, we tested Parent COOL this year, as you've heard us talk about. We had great results and we're about ready to roll that out for September. That's a great new strategic initiative, it's an online interaction with parents, it's the first time we've been interacting with parents online. Of course they still go through the teachers but it's a big strategic drive forward and it will be the foundation for our parent strategy as well. So it's a big strategic move and we laid the groundwork for that this year as well.

Thirdly, we've done a lot of research on broadening our product mix. We'll be -- and we've done some work on experimenting and testing a 12-page Student News format which allows us again to offer more types of product to meet students, of course, increasing varied needs and interests. And we're working across the company with the ED group to repurpose the education product for consumers, as well as media products, software, so we'll have a whole wide range of product, different prices on these new broader Student News templates to drive revenue.

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**Dick Robinson - Scholastic - Chairman, CEO, President**

Great. Okay. Lisa, do you want to talk a little bit about your first impressions of trade and fairs as well as the rest of Scholastic that we are now cooperating so nicely with?

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**Lisa Holton - Scholastic - President, Trade and Fairs**

Sure. Well, I have to say it's been an incredible two months. And one of the things I learned at some of my former employers is that the best way to figure out how to drive your business in a corporation like this is to immediately figure out what's going on in the other divisions, find the exciting places that you think is a strategic fit and then really line them up. And one of the greatest things I've found in the two months is that as I've gone around and gotten to know a little bit about what's going on in education, in international, in media and licensing, in e-Scholastic, in clubs, in continuity is -- is there's incredibly exciting things going on in all of them. I find myself every time I look at the fact that we're on cut -- on the cutting edge of education and knowing what kids are doing in schools better than anyone else. The things that are going on in international, what Deborah has planned in the future, I want to line up our businesses across every single one and that's what really excites me about the future that I think that there's incredible strategic fit, I think it makes sense and I think what's going on across the board at this company is -- is thrilling. So I'm really glad to be here.

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I would say in terms of trade and fairs, the coming year is a mix of some kind of short-term tactical strategies that we've put in place already and also planting seeds for some longer term exciting developments. So, in fairs, actually we just had our sales rally which kicks off the big year, which a bunch of us went down to Orlando for. And I have to say that the momentum and excitement at that rally was infectious. Right? And it was born in part because Dick and I spent probably three days, maybe a week, into my tenure here, made a management change and put Alan Boyco (ph) in as the new President of School -- Scholastic Book Fairs.

Alan is actually one of the original, kind of, founders of the book fair model. He's a great entrepreneur, he's a great businessman, but more importantly, he is the chief evangelist for what a book fair is. And this is a very mission-driven business. It's a business where you need to motivate people, where people need to understand what they're doing in the schools, it's not just a retail, it's about fundraising and connecting to kids in schools. And Alan does that better than anything else -- anyone else. The other thing he does is he's really a team builder. So Beth's group, we have incredibly strong people down there in terms of operations in IT and I think now for the first time they're actually one team. They're working together, they're talking about operations, inventory, sales and marketing and product selection completely across the board.

As Dick mentioned this year the real focus is on a number of big initiatives, but I would say first and foremost is our sales initiatives and with the investment we've made in customer connect it's allowing to us use the software so instead of just simply chasing the huge volume we do in booking fairs, to making it a little more strategic in looking at those fairs and figuring out how we can change a lot of focus in terms of building revenue per fair. We obviously have a lot of big initiatives going on in the fairs, it's a complex business. We have an investment we're making in terms of our inventory management system which will eventually allow us to really understand what's going on in terms of sales per segment and really change of change the way we're looking at product that will be a longer term initiative. But I think we have some really exciting short-term and most of all I think we have a great team in place with a terrific leader who has everybody on fire for this year. So that's great.

In trade, of course, I arrived in May and the team was in full operational mode for Harry Potter. And I just want to pause for a minute because having been in the publishing business for 20 years and you walk in on something like this, you know, what just happened is not an accident and it's not luck. And while it is all stemming from an incredibly brilliant book and it's one of the reminders that at the end of the day our business is actually about talent and it's about writing and it's about voice. But what was so great about what I watched is that the strategic thought that went into every single element, the operations, the distribution, working with our accounts, and looking at sales, looking at marketing, looking at publicity, and the team pulling it all together, it was extraordinary. We went from 800 parties on Number 5 to over 5,000 midnight parties on Friday night. So I was so impressed with every element of the team and every person on the team, I was impressed with the team itself, how well they worked together to orchestrate this moment in history, and I, you know, I don't -- I think we should never forget that, I think we should never take that for granted, that that -- there's a reason that this team just made history.

That's also certainly great momentum as Dick said our retailers are really happy with us right now. There were -- I'm looking at a very tired sales team right now because there were thousands, and there still are, every day we're probably in the hundreds in terms of phone calls, of what's going on at every single retail location, where's sell through, where's -- there's still a lot of demand and sell through is really, really great. So, they're feeling really great about us, and I think one of the other things that's happened in trade over the last year that's really, really key is a focus on net selling. As Dick mentioned, we've really decreased our returns rate which is great, and Scholastic won vendor of the year last year at Levy. Levy is the wholesaler who many of you know probably supplies some of our big mass accounts. That's a huge honor, you're competing with many other companies. And the reason that Scholastic won it is instead of approaching Levy as a sales rep to a buyer, they approached it company to company.

So, a whole team of editorial marketing and sales flew to Chicago many times. Figured out exactly what their customers wanted, what their planogram looked like, what their marketing plans were when they developed a whole new line of baby and toddler product. They brought the product to Levy at every single stage, it resulted in a 40 percent increase in planogram and more importantly a 180 percent increase in sales at Levy. What a fantastic model. A model that we're now going to replicate with a lot of our accounts. And so that begins to give us a foundation for the much more important part of trade, with -- not important but kind of the thing this drives us which is the book themselves. And in that case, what we're doing is working very closely with clubs and fairs. We've instituted a cross-channel strategic meeting where the senior team every other Thursday, clubs, fairs and trade, they sit down with each other and they make decisions together. That -- they -- so we're making decisions all at once about what books and series we're getting behind, how we're getting behind them. And I think that now that we have that foundation when we attract talent, and we're always to be to be increasing our efforts to attract talent because that's always what we need to be doing, we're going to bring that talent in to a really, really strategic foundation where everyone's together and everyone's figuring out how in this very crowded and noisy market, to be really focussed and getting the right books to the right customers. So, I'm really excited to be here and I'm really excited about the future.

**Dick Robinson - Scholastic - Chairman, CEO, President**

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Thank you so much, Lisa. Now, Seth, do you want to talk about your first impressions and -- and what you're doing with the Internet?

**Seth Radwell - Scholastic - President, e-Scholastic**

Sure. Scholastic has a rich history of building award-winning online content in e-Commerce for teachers, kids and parents. In the last years we've increasingly built up our e-Commerce capabilities enabling our core businesses, like clubs and fairs, to operate online more efficiently and to reach customers more efficiently. As Dick mentioned, that allowed us in the last fiscal period to do 240 million online making us the third largest book retailer according to Internet Retailer.

So while we've achieved much, we're delivering a suboptimal performance today in terms of the experience we deliver for three reasons. Our search navigation tools are inadequate, making our site difficult to use and the content difficult to find. We're not adequately tailoring our offerings for individual constituents, be they parents, teachers, administrators or kids. And we're not enrolling prospects off the site to reach them on an ongoing basis, even when they don't think of visiting us on their own.

So what are we going to do about it? Our vision going forward is to build a superior web experience for each of our main constituent groups. We'll do this by recasting our online assets into a new powerful and robust destination site that combines content, commerce and community into a tailored but more seamless web experience. We'll allow individual consumers a much greater degree of personalization to create a view into My Scholastic, which is most meaningful to them. We'll also create entry points into this experience throughout the web by building an acquisition machine that leverages these online assets with deep reach into affiliates, search engines and other commercial and institutional sites. I think Scholastic has built a strong foundation of assets and competencies and with all those across all the businesses, which my colleagues represent here, we can really build this great web experience and thereby help kids read, grow and learn.

**Dick Robinson - Scholastic - Chairman, CEO, President**

Okay. Now we're going to move to questions. I hope that you'll have some for other people here on the panel, and we'll take questions both from the audience and we've -- we're -- we have limited amount of time, unfortunately, but we'll take questions both from the audience and from on the phone. I'd say we have time for about five questions or so. Yes. There's the phone -- the microphone for you.

QUESTION AND ANSWER

**Unidentified Audience Member**

Mary, I was wondering if you could talk a little bit about free cash flow. What were some of the factors that drove the big surge year-over-year in free cash flow in the fourth quarter, and longer term, what do you think the right percentage of net income that free cash flow ought to be?

**Dick Robinson - Scholastic - Chairman, CEO, President**

Mary, you've -- you've partially addressed that. Do you want to amplify?

**Mary Winston - Scholastic - CFO**

Yes, I'll just do so briefly, though, I mean I think we did have really strong operating performance in fourth quarter that drove cash and we also had more effective working capital management. And throughout the year that's been a focus for us. Looking at every element of our working capital maybe in a more detail than we have in the past to drive cash flow. Also our capital spending came in just below the low end of our range and it came in lower than we were expecting due so -- due to some timing issues so that generated some cash. Also in the calculated free cash flow number, there is a \$10 million impact from the leasing adjustments that's really a non-cash item so -- so that impacted it as well. In terms of long term target, I think we've said in the past that our expectation is to deliver -- at least 70 percent of net income in the terms of flow. And we think that's appropriate because that allows some room for continued investment in the business to grow in the future, fix the infrastructure that we need to fix but it also delivers a -- an appropriate return.

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**Dick Robinson - Scholastic - Chairman, CEO, President**

Thank you. Next question. Yes?

**Second Audience Member**

It's a question for Judy. If you're focusing on direct-to-home sales to the parents, will that cannibalize what you're doing in terms of -- of -- of the teachers' acquisitions of -- of books in the classroom?

**Judy Newman - Scholastic - President, Clubs and Homes**

No, it's actually perfectly compatible, we think, you mean through Parent COOL? No. Because we're careful to watch that actually as we go forward. But we feel that we'll be respectful of the initial interaction through the club, but then we'll, if parents want, we can have continued learning products to parents and if they want to continue the relationship. What we're finding in our initial test, though, is that parents who use Parent COOL, they buy more through the book clubs. Okay, so we're seeing higher revenue, pretty good, you know, revenue from parents who are buying through the Parent COOL mechanism because it's easy, they're adding -- we feel they're adding onto their orders, that's what some of our research is telling us. They're more engaged in the process, so we figure that they're likely to buy more, we can see what they're wanting so we can add more to their item. We don't see any -- we see we can add different kinds of products to them, but we'll watch it, of course. And if there are other children in the family we can reach out to them. So there's potential all around, we believe.

**Dick Robinson - Scholastic - Chairman, CEO, President**

Okay. I think I'll turn to the people on the phone. Operator, could we have questions from the phone?

**Operator**

Your next question is from Lauren Fine of Merrill Lynch.

**Lauren Fine - Merrill Lynch - Analyst**

Thank you very much. I'm wondering if you could help us just in terms of more specific margin targets and maybe you could start by providing within Children's Books Publishing and Distribution, a sense of either -- either rank ordering them or giving specific margins on each of the businesses and which ones you expect to see the most improvement in in 2006? And then also I guess margins on Harry Potter 6, would they be about the same as the last book, higher or lower?

**Dick Robinson - Scholastic - Chairman, CEO, President**

Mary, you want to tackle that one? Thank you, Lauren.

**Mary Winston - Scholastic - CFO**

Hi, Lauren, this is Mary.

**Lauren Fine - Merrill Lynch - Analyst**

Hi.

**Mary Winston - Scholastic - CFO**

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In terms of margins, I think we've always said that our long-term overall margin for the total company is to get back to the level we were at a few years ago of 9 to 10 percent. And so that remains our goal over the medium term. In terms of margins on the subsegments within Children's Books Publishing and Distribution, we don't give margin numbers on the subsegments and the reason for that is that we, at this point, all those businesses are connected strategically, they do operate to some degree in tandem, we're working to improve that, but we also have an overhead structure that supports those businesses. And because we report them as one segment, the allocation methodology is not precise enough that we would feel comfortable in giving specific margins on specific subsegments. So we try to focus on segment at all -- overall. But in general, if I look at the components of that business, who's going to have the highest margin growth, I think we would expect trade to do well in a Harry Potter year. We expect to see higher margins in the continuity business as a result of the restructuring there. We expect margins to be probably about level or slightly improvement in fairs, while we -- while some of the initiatives that we put in place have a longer time horizon to really see the true benefits. And with all the work that's going on in clubs, we expect -- expect to see some slight improvement in margins there.

**Lauren Fine - Merrill Lynch - Analyst**

Then also just on Harry Potter 6. You expect margin on that business to be the same or better than Harry Potter 5?

**Mary Winston - Scholastic - CFO**

Well, that's another, we don't disclose margins on specific products and properties, but I would say that there's certainly no reason to expect it to be lower than Harry Potter 5, that's for sure.

**Lauren Fine - Merrill Lynch - Analyst**

Great, thank you.

**Dick Robinson - Scholastic - Chairman, CEO, President**

Okay. Thank you, Lauren. Next question on the phone?

**Operator**

Your next question is from Peter Appert of Goldman Sachs.

**Peter Appert - Goldman Sachs - Analyst**

A big part of the margin improvement this year has obviously been a function of the bad debt reduction. I'm wondering if you can just talk about how much room there is left to bring that bad debt level down. Maybe some of the other financial metrics that would help us get better confidence in your ability to grow that business again. Things like response rate or average sales rate, some -- something that would give some insight in terms of how that business can grow again.

**Dick Robinson - Scholastic - Chairman, CEO, President**

Mary do you want to deal with the first part of that, in terms of bad debt, and Judy say a word or two about what you're doing to grow the business?

**Mary Winston - Scholastic - CFO**

Okay. Yes, okay. As it relates to bad debt in the continuities business, one of the things that we have done this year is really focus on that. So there's no change in accounting methodology that's driving that, it truly is as a result of strategies in that business and a better management of the credit risk of the customers and better targeting of credit-worthy customers to begin with. So we are seeing true improvement.

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From an accounting perspective we're still using the same methodology which means that we look at the historical performance of our base of receivables, and that's on a program-by-program basis and it could be anywhere from over a 12-month period to a 30-month period. So on a -- on average it's a couple of years. So the improvement that you've been seeing is actually not as impressive as what we're seeing in the underlying statistics. So we're seeing pay rates up substantially and we're just seeing overall credit performance in the files much better. I think the way we're treating it from it a accounting perspective is somewhat conservative, although appropriate, when you've made this degree of strategic change in any business. And so I think from a financial perspective we'll start to see continued improvement as we go into next year as well as we continue to get, say, the old credit history customers out of the file and more population of the new credit. And I'll let Judy talk about some of the metrics in the business.

**Judy Newman - Scholastic - President, Clubs and Homes**

Right. As we've been saying all along, this year has been about stabilizing the business and reducing promotion expense to just focus on better quality customers, customers who want to be engaged with us, focusing on good customer service, our 800 number, and customers can get to us on -- on the web, so we have really good customer experience. So now we have a good base of customers who are happy to be engaged with us and we're seeing those bad debt rates and return rates go down which are these metric that is you're experiencing. And so now we are building. This year we've been testing new products. Scholastic Phonics out in -- on telemarketing and in direct mail, and we're -- and Scholastic Classics and we have a Vegetables program, a new book of knowledge, and we're starting to put a lot of these Scholastic branded products out to these good quality customers and building a really great experience for Scholastic at Home. So we're seeing really good responsible, solid growth in our future here.

**Dick Robinson - Scholastic - Chairman, CEO, President**

Thank you. Peter, do you have any -- any further questions or that it for the moment?

**Peter Appert - Goldman Sachs - Analyst**

Well, I was hoping on an unrelated topic, maybe we could get Margery to talk about the -- the competitive dynamics with READ 180. You've had a unique situation in terms of relatively non-competitive market which has helped drive the profitability. I'm wondering if she's seeing anything that might cast a shadow in that regard?

**Dick Robinson - Scholastic - Chairman, CEO, President**

Thank you for asking that question. If you hadn't, I was going to ask her to do it anyway. But Margery, why don't you answer Peter's question and if you can expand a little bit on the theme.

**Margery Mayer - Scholastic - EVP and President, Scholastic Education**

Well, Peter, as you said, we've been -- we've been, I love what Lisa said about Harry Potter and it's not just luck because I think sometimes people think wow, they have READ 180, how lucky are they? But we believe that children can learn to read and -- and we were -- also believe that technology could be a critical component in that. SO, yes we were fortunate to identify READ 180, but I also think that it reflects the skill of the team in education in bringing together the content, the technology, sales skills, and then the customer support pieces that really make READ 180 work in a powerful way.

Obviously, READ 180s attracted a lot of attention in the market from competitors. I think in some ways they're shocked that we could sell so much technology in such a really central way to improving schools. So we hear a lot of companies have READ 180 killers that they're working on, which I say, just try. There will be more and more choices for schools in terms of intervention for adolescents, there's a lot of attention from the government and obviously there's a huge need. But as READ 180 grows and as we prove over and over again in districts that it really does work with kids, as we build out our organization to provide the kind of partnership with school districts to really help them look at their data, get their teachers up to snuff, make the program work, we're building in, we hope, a kind of resilience in our product.

Our sales are wonderful and -- and when we look at them, we -- we -- we're encouraged by their composition. More than 50 percent of our sales are to customers who have been using READ 180 who come back to us to buy more stages, to add licenses, so replenish their classrooms and we

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also have good new customer acquisitions. So it's -- it's a great -- it's a great thing for us to be out there selling READ 180. We're so gratified by what we see happening in schools by talking to teachers and kids and -- and seeing that we really and truly are turning lives around. We are -- our mantra in education is be afraid, be very afraid because obviously we want to keep our momentum going. But we feel good about where we are right now. We think the new enterprise addition of READ 180 is going to take us another step ahead of -- of where competitors may be and we think we're going to deliver a fantastic experience for our customers. So that was a long-winded answer, Peter, but as you can tell, we're very excited about what we're doing out there.

**Peter Appert - Goldman Sachs - Analyst**

That -- that's -- that's great, thanks. One -- one other thing, Margery. The fourth quarter revenue growth rate slowed a little bit in Educational Publishing. Is that a function, you think, just -- just higher penetration levels within the market for products like READ 180 or are there other things going on?

**Margery Mayer - Scholastic - EVP and President, Scholastic Education**

We -- we feel like we had a great year last year, we were up 10 percent. One of the things we're seeing with READ 180 is that we're getting a little bit more seasonality in terms of purchasing patterns so we're going to see summer become increasingly important in our READ 180 sales as schools buy more READ 180 to get ready for back-to-school. Our technology sales were good in -- in the fourth quarter and we feel like we're on track for continued growth.

**Peter Appert - Goldman Sachs - Analyst**

Great, thank you.

**Dick Robinson - Scholastic - Chairman, CEO, President**

Okay, thank you. Well, in light of the time, I'm going to thank our fantastic team here on the stage and then all of you here from Scholastic in the audience. I'm inspired to look at you and see how much you've accomplished but how much more we can accomplish together. Thank you to the investors who have come today and all who have listened. We will, for those investors who are here present, we have products on display in the resource room where some of you were this morning, upstairs on the second floor, and we invite you to look a little more in-depth, to read With Me DVD, to READ 180, to COOL, Fast Math and all the many wonderful new products that we've got on display there. So, thanks -- thanks to you all and we will -- and thanks for attending our investor conference '05.

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